# INVESTMENT TRUSTS
# IN AMERICA

THE MACMILLAN COMPANY
NEW YORK · BOSTON · CHICAGO · DALLAS
ATLANTA · SAN FRANCISCO

MACMILLAN & CO., LIMITED
LONDON · BOMBAY · CALCUTTA
MELBOURNE

THE MACMILLAN CO. OF CANADA, LTD.
TORONTO

# INVESTMENT TRUSTS IN AMERICA

BY

MARSHALL H. WILLIAMS

New York

THE MACMILLAN COMPANY

1928

Set up and electrotyped.
Published August, 1928.

*Printed in the United States of America by*
J. J. LITTLE AND IVES COMPANY, NEW YORK

# CONTENTS

# INVESTMENT TRUSTS
# IN AMERICA

# INVESTMENT TRUSTS IN AMERICA

## CHAPTER I

### Crystalizing the Law of Averages

> "The business of the Trust shall be limited in nature to the investment and reinvestment of capital. The Trustees shall not use the funds of this Trust in connection with, nor engage the Trust in, any enterprise involving promotion, business management or underwriting."

This brief section from a Deed of Trust epitomizes the purpose, and operation, of the Investment Trust.

The advent of the Investment Trust is one of the most important developments that has occurred in the field of American Finance. Investors are constantly seeking for means to employ their surplus in a safe and profitable manner. More than any other vehicle for this purpose, the Investment Trust supplies to the investor the requisite elements for his needs. They may be summarized as a high degree of diversity which, according to its character, reduces the hazard attendant on investment, and

a factor of specialized judgment through the coordination of trained officers backed up by a complete statistical organization.

There are not many individual investment holdings which would not be materially damaged by a disastrous turn to two or three items therein. Most investors have not sufficient capital to properly diversify nor sufficient knowledge to correctly diversify. Purchase of numerous securities does not achieve this desirable goal beyond the extent of diminishing the risk to the whole investment.

The advantage gained by spreading out the hazard is not sufficient. The element of management coupled with diversified holdings completes the picture.

The cautious investor, distrusting any management, however sound, still gains safety by owning a share of a well selected portfolio. The element of risk, removed from trust management, is confined to the actual securities held. But with a management, functioning capably, the possibilities for not only protecting the investor's principal, but of actually augmenting it, are greatly improved.

Diversification is not a substitute for caution or good judgment. It is almost a general rule that investors with many different holdings will find on very short notice that some item has

declined in value. Only a highly trained, thoroughly equipped organization, constantly applying itself, can properly supervise a broad portfolio of investments.

The *Financial Times* of London on June 11, 1925, stated:

> "The safe investment of money at good yields is by no means an easy problem, but becomes more of an exact science with an Investment Trust Company than with the average individual whose capital is limited and to whom mistakes may be serious."

In practically all discussions of Investment Trusts which have been published, a constant reference is made to the British Trusts. The reason for this is the pronounced success which they have enjoyed. The foreign Trusts are the product of over half a century's evolution and development and we find a standardized type which embodies certain characteristics. All the institutions in this country which call themselves Investment Trusts are not by any means similar to the type which has been evolved abroad. Investment Trust as a term has been represented by many institutions as embodying the important principles of diversity. The British Trusts, however, add to this factor the principle of accumulating reserves out of earnings, also the principle of international operation,

and make an important point of management which is disinterested in its judgment on investment and reinvestment.

Consequently, when we refer to British Trusts we must keep in mind that these factors are present. (The management feature is particularly to be stressed, as it is true that the profits which accrue to the Trust over and above the income from the securities which are owned depends almost directly on the skill and experienced ability of the management in its wise purchase of sound securities in depressed markets, its perception of economic conditions which recommend the sale of its securities under propitious circumstances and, in turn, the reinvestment in other depressed markets.)

Following the Napoleonic Wars, Great Britain was attaining the position of creditor nation of the world, which it held up to the outbreak of the World War. The Empire enjoyed prosperity at home, with expanding domestic industries and expanding foreign trade. Since the World War, the United States has found itself in a somewhat analogous situation. Interest rates have declined and the supply of capital has increased. Practically every industrious individual in this country today has some surplus. The conditions have become right for the Investment Trusts to appear as under similar

conditions they appeared in England and to furnish the millions of investors in America with an opportunity to employ their money more profitably than can be done by themselves, individually, with securities selling at prices where the actual return on the money is low at home. It has been necessary in order to gain more reasonable return to go afield in search for it. There are approximately 5,000 securities listed on the Exchanges of this country; there are over 8,000 listed in London, over 22,000 listed in Europe and there are approximately 200,000 seasoned marketable securities in the World. Of this number, there are many thousands which are sound investments, and an Investment Trust with the proper organization, with highly trained executives to recognize values, can find plenty of securities in one country or another to give complete employment on a profitable basis to its resources. It is possible for the individual to get the benefit of such opportunities only through large institutions which, due to their size and the collective use of money, can be properly equipped to operate in a scientific manner for the benefit of their shareholders.

The National Bank of Commerce of New York City, over a year ago in the *Commerce Monthly* made the following remarks:

"The introduction of the Investment Trust device into our financial machinery follows the entry of the U. S. into the ranks of important creditor nations.

"The Investment Trust, a financial device for averaging risks and rendering expert service to the small investor, has been introduced into this country since the War. It is a type of investment organization that has satisfactorily made the test of long use in Great Britain, which was for so long the leading creditor nation of the world.

"The most significant aspect of the Investment Trust is the diversity of its assets. The problem of diversity of investment in the well-managed concerns of Great Britain has been approached from many different angles. Too much of the investable capital of any particular trust must not be wrapped up with the fortunes of any particular geographic locality. Too much must not be dependent upon the prosperity of any particular type of industry or business.

"Profitable operation of an Investment Trust may often be materially bound up with the turnover in its portfolio. Skillful managers of Investment Trusts develop a feeling, or an art, in turning over the portfolio to advantage. But large scope is offered for scientific study and analysis of different offerings and of securities already owned. To this end, an analysis staff must investigate constantly the standing and credit of obligers.

"The development of Investment Trusts in Great Britain witnessed some adverse experiences, but on the whole, the movement has prospered. Today there are scores of successful Investment Trusts in the British Isles controlling aggregate assets of hundreds of millions of dollars."

## CRYSTALIZING LAW OF AVERAGES

The investor of today in seeking his channels for investment discovers that the facts which affect securities are so involved and so multitudinous that he is faced with a situation far too complex for his own diagnosis, unless he devotes a great deal of time and expense to study. We have seen the purchasing power of the dollar fluctuate as much as 40 per cent, which means that the investor in the very highest grade of securities with a fixed return, while he actually receives the same number of dollars, has met with severe reverses in his purchasing power during the shrinkage of value in the dollar. As is usually the case with an individual, an investment in such high grade income paying obligations remains untouched and no effort is made whatever toward adjustment with economic conditions. The average individual has not the prescience to anticipate changing conditions in industry, nor the ability to interpret the meaning of crop reports, of fluctuating discount rates, consumption of raw materials, etc. An Investment Trust properly organized and equipped makes a business of constantly knowing these things and taking advantage of them to the benefit of its shareholders.

## CHAPTER II

### British Trusts

In the *Bankers' Monthly* of June, 1927, Mr. Edgar Higgins tells the story of how a Scottish Trust was started in Dundee.

"Back in the '60s a young clerk in a jute mill was preparing to visit the U. S. Several of his friends told him that they each had £1,000, to invest and asked him to buy for them an investment bargain while in America. So many friends made this same request that he said to them 'Why don't you all combine so that I can buy 30 different bargains, thereby spreading your risks, with each of you owning a share in all 30 investments?' His common sense suggestion was adopted and thereupon an Investment Trust was started. This Scotchman is today an old man, but he is still active, managing a group of Trusts."

During the period of time that the Investment Trusts in England and Scotland have been in operation, they have undergone the crucial test of disasters, political, economic and finan-

cial all over the world. They have conclusively proven the virtue of the underlying principles of Investment Trust operation.

The *Financial Times* of London, in the summer of 1925, published an analysis of 21 Scottish Investment Trust companies and 23 English Investment Trust companies. The analysis compiled from the latest reports available sets out clearly and in a concise form the results attained by the companies. The accounts prove conclusively that the Investment Trust principle is well understood and applied in Scotland. A conservative policy is maintained in paying dividends and the surplus remaining over produces a margin of safety which not only strongly guards against any risk of reduction of current dividends, but also enables the companies to strengthen their position by using part of their respective surpluses to good advantage, either in swelling their reserve funds or in writing down the cost of securities. Most of the companies are able to report that the value of their investments shows an excess over book costs which constitutes hidden reserve, although of a fluctuating nature.

The Scottish Trust companies, unlike most of the English Trust companies, do not publish a list of the investments with their reports, but generally, in lieu thereof, they submit a

table showing the manner in which the investments are distributed and the various classes of securities held with the amount of capital invested in each class. To a certain extent, this information is illuminating to the stock holders. The ordinary (common) stocks of the Scottish Trusts sell on a lower yield basis than that of the English Trusts and this is explained by the more generally conservative policy displayed in the management of these companies in distributing a lesser proportion of earnings available for the ordinary shares.

The English Trusts follow the policy of building up adequate reserves and while not proportionately as much is set aside from earnings as in the Scottish Trusts, the margin of safety is such that reductions of dividend rates appear to be strongly guarded against.

The progressive character of these extremely well managed companies has resulted in payment of steadily increasing dividends and at the same time permitted the transferring of considerable sums from revenue to reserves.

The real English investment trusts, according to authorities,[1] never distribute profits from the sale of securities but reinvest them to earn additional income.

[1] Cf. A. Emil Davies, *Investments Abroad,* Chap. XIV, pp. 158-170; Hartley Withers, *Hints about Investments,* Chap. XVI.

The policy of withholding large proportions of earnings and building up reserves has resulted in a stability of dividend rates for the ordinary (common) shares of the British trusts.

Dr. Leland Rex Robinson, President of the Second International Securities Corporation, and formerly American Financial Trade Commissioner in London, has analyzed the dividends paid by fifty-five thoroughly representative companies during the entire period from 1912 to 1924 inclusive.[2] This period covers the tremendous upheaval caused by the World War and its extraordinary period of readjustment immediately after.

The following investment trusts declared an average annual dividend of 10 per cent, or over, during the entire period:

The Alliance Trust Co.
The British Investment Trust
Consolidated Trust
Edinburgh Investment Trust
Industrial and General Trust
Investment Trust Corporation
Metropolitan Trust Co.
River Plate and General Investment Trust Co.
United States Debenture Corporation.

[2] *Investment Trust Organization and Management*, by Leland Rex Robinson.

The following companies enjoyed dividends averaging from 8 per cent to 10 per cent during the same period:

American Investment and General Trust Company
Army and Navy Investment Trust Company
Government and General Investment Company
Indian and General Investment Trust
Merchants Trust
Second Scottish Investment Trust Company.

The following companies have paid dividends of at least 7 per cent since the War, although their earnings before and during the War were less:

Alliance Investment Company
Brewery and Commercial Investment Trust
Caledonian Trust Company
Debenture Securities Company
General and Commercial Investment Trust
General Investors and Trustees
London and Colonial Investment Corporation
London and New York Investment Corporation

London Trust Company
New Investment Company
Third Edinburgh Investment Trust
Trust Union
United States and General Trust Corporation
United States and South American Investment Trust Co.

Dr. Robinson, in summarizing, says:

"Thus it appears that fully one-quarter of the British investment trusts have been remarkably successful. Of the fifty-five in question, only a half dozen or so fell below 6% in 1921, their average dividend for that year being 4%. These same companies failed to pay an average of 5% during the ten year period 1912 to 1921, but they are the only ones among the fifty-five which have been unfortunate to this extent."

"The average dividends of the fifty-five companies were over 7% in the years 1912 to 1914 inclusive; they were 6½% during the war period; and have been over 8% in the period following the war."

It is interesting to note the earnings available for ordinary stock and the dividends paid

recently on certain of the British trusts. They are quoted herewith from the *Financial Times* of London.

Scottish Trusts:

| | *Year* | *Earned* | *Paid* |
|---|---|---|---|
| The Alliance Co., Ltd. | 1924/25 | 36.74% | 23% |
| American Trust Co., Ltd. | 1924/25 | 15.45% | 10% |
| British Canadian Trust, Ltd. | 1923/24 | 14.59% | 8% |
| Scottish Investment Trust Co., Ltd. | 1923/24 | 16.58% | 10% |
| Scottish Northern Investment Trust, Ltd. | 1924/25 | 21.83% | 15% |
| Scottish Western Investment Co., Ltd. | 1924/25 | 21.32% | 14% |
| Second Scottish American Trust Co., Ltd. | 1924/25 | 14.73% | 10½% |
| Third Edinburgh Investment Trust, Ltd. | 1923/24 | 29.55% | 12% |

English Trusts:

| | | | |
|---|---|---|---|
| Army and Navy Investment Trust Co., Ltd. | 1923/24 | 21.42% | 12% |
| Bankers Investment Trust, Ltd. | 1924/25 | 11.97% | 8½% |
| Industrial and General Trust, Ltd. | 1924/25 | 21.74% | 14% |
| Mercantile Investment and General Trust Co., Ltd. | 1924/25 | 16.42% | 12% |
| Sterling Trust, Ltd. | 1924 | 10.41% | 7½% |

Diversity of holdings may be realized in noting the number of different securities resident in the portfolios of the British Trusts:

SCOTTISH TRUSTS

| | | | *Year Ending* |
|---|---|---|---|
| The U. S. and General Trust held | 231 | securities | Jan., 1924 |
| Caledonian Trust Co. held | 250 | " | Jan., 1924 |
| First Scottish American Trust held | 331 | " | May, 1923 |
| British Investment Trust held | 343 | ' | Jan., 1924 |

## BRITISH TRUSTS

### English Trusts

| | | *Year Ending* |
|---|---|---|
| The Indian & General Investment Trust held .......... | 203 securities | 1923 |
| The Alliance Investment Co. held...... | 295 " | 1923 |
| The American Investment & General Trust held .......... | 296 " | 1923 |
| The Consolidated Trust held........... | 305 " | 1923 |
| The Guardian Investment Trust held... | 319 " | 1924 |
| The Bankers Investment Trust held.... | 462 " | 1923 |
| The Mercantile Investment & General Trust held .......... | 500 " | 1924 |
| The London Trust held................ | 557 " | 1923 |
| The Industrial and General Trust held.. | 800 " | 1923 |

While the Scottish Trusts do not publish their portfolios, the general distribution which is disclosed for the shareholders as to percentage has been said to be illuminating. On December 31, 1923, the United States and General Trust Corporation held 231 securities distributed under three groupings as follows:

| | |
|---|---|
| Government Loans.................... | 15% |
| Railroad ............................ | 24.9% |
| Public Utility ...................... | 16.4% |
| Iron, Coal and Steel.................. | 5.7% |
| Commercial and Industrial............. | 28.8% |
| Banks and Financial................... | 9.2% |
| | 100.00% |

As to type of securities held:

| | |
|---|---|
| Bonds represented ........................ | 58.7% |
| Preferred stocks ......................... | 18.5% |
| Ordinary stocks .......................... | 22.8% |
| | 100.0% |

As to geographical distribution:

| | |
|---|---|
| Great Britain | 44.1% |
| British Colonies | 9.8% |
| United States | 4.4% |
| Argentine | 15.7% |
| Brazil | 3.6% |
| Other South American countries | 9.2% |
| Mexico | 1. % |
| Other countries | 12.2% |
| | 100.0% |

The Caledonian Trust Company, Ltd., on January 1, 1924, held 250 securities, divided geographically as follows:

| | |
|---|---|
| Great Britain | 29.9 % |
| British Colonies and dependencies | 13.44% |
| United States | 18.9 % |
| Argentine | 9.37% |
| Brazil | 3.74% |
| Other South American countries | 8.52% |
| Mexico | 1.39% |
| Cuba | 1.23% |
| Central America | 2.45% |
| Other Countries | 11.06% |
| | 100% |

Incorporated in the Articles of Association of the British Investment Trusts is often found the rule that no officer or director having a personal interest in the securities under consideration for investment, is qualified to vote on it.

In the main it is found that the larger the companies the lower is the ratio of cost of man-

agement to capitalization. In charts published last year under an article by Mr. Mackenzie Williams, in the *Financial Post* of Toronto, it is shown that on a list of 23 English Trusts .44% of capital was the average cost of management, while in a group of 21 Scottish Trusts .38% was the average cost of management.

In another Chapter discussion will be made of remuneration for management on a participating basis. It is interesting to note that in the Petroleum Power Investment Corporation, Ltd., the directors are entitled to 5% of net profits after payment of dividends. In the Anglo-Scottish Trust, Ltd., the directors are entitled to 5% of the net, after payment of a 7% dividend on ordinary shares outstanding.

In the Produce and General Investment Trust, Ltd., the directors get 5% on the net after payment of 10% dividends not exceeding £2,500.

In 1886, 12 British Investment Trusts were listed in London with an aggregate capitalization of 70 millions. The London Stock Exchange Intelligence for 1927 lists 236 companies under "Financial Trusts" of which probably 130 are genuine investment trusts, and have a capitalization of hundreds of millions. The price of the common stock on the following British Trusts shows an interesting growth:

| | 1909 | 1913 | March 1927 |
|---|---|---|---|
| British Investment Trust | 212 | 267½ | 440 |
| Indian and General | 73 | 109½ | 285 |
| Industrial and General | 134½ | 177½ | 315 |
| Investment Trust Corporation | 182¼ | 226½ | 410 |
| Mercantile and General | 96 | 123½ | 285 |
| Merchants Trust | 110 | 137 | 220 |

From all of the foregoing figures, it is seen that the representative British Trusts have accomplished certain desirable things; they have been able to earn at such a rate that they have had accruals to surplus from year to year and have developed a healthy growth. This has enabled them to reward their shareholders with larger rates of dividends over a period of time, and coincidentally the value of their investment has increased.

The *Financial Times* of London has pointed out that the "Ordinary stocks (of British trusts) can be looked upon as most suitable for the intelligent man who requires a well secured investment offering a fair yield, coupled with a good chance of appreciation in capital value." And also that "some difficulty may be experienced in acquiring these ordinary stocks, and, conversely, the ease with which sales may be effected."

# CHAPTER III

## Raising Capital

The Investment Trusts in this country have raised their capital in two different ways. The Trusts which have followed the more or less standardized British idea are incorporated, although there are instances of certain ones which operate under a Deed of Trust. When the Trust has been organized, its resources are raised through the sale of bonds, preferred stock and common stock. The Founders of the Trust acquire a certain amount of common stock. Following this it has been common practice to sell securities to the public in unit form, i.e., a certain amount of preferred stock and a certain amount of common stock combined. The underlying idea of selling stock to the public in this way is that it is reasoned that the preferred stock, with a greater degree of safety and with a fixed return, forms a fairly large proportion of the public investment; and that the common stock, with a less degree of safety but with possibilities of enhancement in value after a period of operation, should be given to the investor who furnishes the so-called senior

capital on which the better than ordinary earnings are made. Inversely, of course, it is felt that if the public desires to share in the profits of the Trust it is only reasonable that it should furnish part of the senior capital on which those profits are made.

After the Trust has been in operation for a certain period of time and has established a definite ability to earn, the tendency is to reduce the proportionate amount of common stock which is sold with the preferred, as the preferred becomes more and more seasoned and deserves a better investment rating. Following this financing, the Trusts issue and sell their bonds. These bonds carry a still lower rate of interest and, of course, deserve a still higher investment rating than the preferred stock, as equities have already been paid into the Trust which produce an additional margin of safety to bondholders.

The British Trusts have made a practice of issuing debenture bonds and this practice has been followed in the United States generally, although there are instances where Collateral Trust bonds have been marketed, secured by the deposit of certain securities from the Trust's portfolio with a Trustee. One of the innovations in capital structure of Investment

Trusts in this country is the prevalent practice of dividing the common stock into two classes, the "A" and "B." The Class A stock has certain privileges as to distribution of dividends which precede any distribution on the Class B stock, also certain privileges as to liquidation. The Class A is sold to the public and the Class B is bought by the Management group, and may be classified as participating capital. For the earnings of the Trust to warrant dividends on the Class B stock, they must be sufficient first for the public holding the Class A stock to receive fairly attractive dividends. In this way, the investor is assured of considerable stimulation to the management in order that it can produce earnings sufficient to accrue to its holdings.

In Trade Information Bulletin No. 530 issued by the U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Dr. Frederic E. Lee, American Trade Commissioner in London, has made a report concerning participating shares in British Investment Trusts. Of 133 companies, which appear to be genuine investment trusts and are listed on the London Stock Exchange, "19 have had at one time in their history some form of founders, special 'deferred,' or participating shares. Of

these 19, ten have converted or cancelled all such shares."

"There is a growing and widespread resentment among the holders of ordinary and preferred shares of investment companies against what they consider the unfair distribution, actual or potential, of profits to the holders of founders', or other special participating shares. Investment trust authorities are of the opinion that this limited amount of 'deferred' stock, or founders' shares, now to be found among British Investment trusts, is probably a hold-over from earlier practices of investment trusts."

Also, the relative relation of bonds and stock outstanding in the 133 companies examined by Dr. Lee is found to be as follows:

| | |
|---|---|
| Debentures | 35% |
| Preferred Stock | 34% |
| Common Stock | 31% |
| | 100% |

The American Trusts are to a certain extent showing tendencies to follow a practice which is almost universal abroad—the management of the Trust and its financing are performed by another organization, which might be called the management company or the fiscal agent, or a combination of both, and the outlook is that we will have here, as abroad, a number of

Trusts grouped together under control of one fiscal agent. This has the tendency to reduce the financing cost of each trust in the group as well as the management cost. As in practically all public financing of any magnitude, when a Trust has its securities for sale, the issue is underwritten by its fiscal agent and distributed by a Selling Group, or Syndicate, of Investment Bankers, at retail.

The cost of selling its securities naturally varies according to the size of the Trust, the number of years it has been in operation, the earning ability which it has shown and the size of the issue of securities, whether bonds or stocks, which is offered. The prevailing conditions of money rates and security markets also have a marked influence on the costs to the Trust.

The second manner in which Trusts in America are financed and raise their resources is quite a different thing, due to the entirely different nature and operation of the other Trusts, which may be called a relatively fixed portfolio type and which are chiefly related to their British relatives in the element of diversity. These Trusts buy a diversified list of securities, deposit them with a Trustee and issue against this block or unit of stocks a certain number of Trust, or participating, certificates. This type

of financing is relatively simple and is practically an endless piece of work until either the market has absorbed all that it will of these certificates, or the organizers for their own reasons cease to form any further units. Often in this type of Trust the management's interest ceases as soon as the portfolio has been bought and the certificates issued against it have been sold, as it has made its profit for its labor of organization and distribution. In other cases, the management devotes to the portfolio a certain amount of supervision and in some cases is permitted to make changes from time to time, as occasions seem favorable. Trusts of this type are quite apt to be in specialized fields, such as industrial, railroad, public utility, banking and insurance. The cost of forming these Trusts and distributing certificates is inclined to be somewhat higher than the cost of financing the British type of Trusts.

On the other hand it is evident that once the rigid type of trust is organized, the cost of operation is relatively very small. Also the larger organizing cost covers many items beside the raising of the capital itself—such for instance as trustee charges for a period of time, auditors, cost of preparation of trust agreements, preparation and issuance of trust certificates, etc.

In the Supplemental Survey of Investment Trusts issued by the Attorney-General's Office in New York State, the following attitude is well taken:

". . . there is a real necessity for the contractual trust of the fixed or semi-rigid type to make known the exact amount of differential between the amount placed to the investor's credit in the trust, and the amount charged for the certificate of participation. . . . We commend highly those trusts which have been fair and just in their dealings with the public in this regard, and believe that all trusts of this character should so word their indentures that this differential becomes an unchangeable and component part of the Declaration of Trust. . . .

"The dangers incident to the policy of secrecy in regard to the differential are recognized by the outstanding financiers connected with this form of investment. These dangers may not be so apparent at this time but it is the element of future practice that makes this point so vital. There should be continuous open publicity in regard to all matters of spread."

It is apparent that with conditions prevailing in the United States, whereby capital can be raised at a low cost, and at a relatively low interest rate, on account of its great abundance,

Investment Trusts can be launched at reasonably low initial burden and on a basis where the service of the senior securities is not high, and that capital thus raised, and raised in permanent form, can be used advantageously in other markets where favorable money conditions do not exist and can be brought back to this country when conditions for the use of capital have improved from the point of view of the lender.

# CHAPTER IV

## Operation and Management

The Investment Trust of the British type is distinctly dependent for its large accumulation of reserves, and its increasing earning power upon investment profits which result from time to time from the process of changing investments. There are certain definite plans which the management is expected to pursue in its work; the underlying idea is the *transfer* of resources into depressed markets for investment where relatively high interest rates prevail and where values are greater than prices. This operation never ends, and the alert management is constantly moving its resources about. When new depressed markets occur in which investment bargains prevail, they seek to *re-transfer* their resources from prosperous sections into these new buying opportunities. In carrying out this plan the management must confine itself to securities which are marketable, seasoned, and of definite merit. The Trust must have a statistical department manned by a trained organization constantly studying all

the known securities which meet the requirements of the Trust and which the Trust either owns, or might some day expect to own. The men composing this trained organization are best fitted for their work when they are natives of the different sections of the world, born to, and familiar with, the different languages and have had financial experience. All of the securities which are under surveillance are studied and records kept of past and current information which is available concerning them. All of this information is reduced to common denominators at current rates of exchange so that heads of the various departments can quickly and accurately determine the values that exist. Another department in the Trust's organization is constantly engaged in studying all factors which have a bearing on the values and prices of securities. This department also is trained, and has had practical experience in the interpretation of political and economic events. Supplementing these departments are banking connections in the principal countries of the world where the Trust carries a certain amount of its cash resources. These banking connections are of great value to the management of the Trust not only for the purchase and sale of securities in those sections, but also as providers of new information which is con-

stantly available, and which, when furnished promptly, enables the management to take advantage of conditions that may be on the point of changing.

The management supplied with such information is obviously in a position to accomplish its most desirable function—of moving its resources about in the different world markets where they can accomplish the best results.

To sketch a picture of the workings of one of these trust organizations let us imagine an investing committee seated in conference. The chairman is listening to the report of the head of the economics department. This report points out that, due to an oversupply of beef in the markets, money conditions in Argentina are unsettled, interest rates are high and securities are being liquidated in order to carry over an unsold beef surplus to better times. The report then discloses that in continental Europe currency has become more stable, refunding programs are under way to reduce government debt service, and there is a healthy demand in some countries for good internal securities.

The report closes, and after a discussion the committee decides that it is a propitious time to begin buying Argentine securities. The head of the statistical department is called in and

asked to present a list of Argentine securities permissible to the trust under its regulations. Such a list is furnished and it is found that Argentine Cedulas (internal mortgage bonds) can be had on a 6½% basis. An order is made out to buy. A valuable addition to the portfolio is made at an attractive price. The head of the statistical department is then asked to return with a list of the Trust's holdings in continental Europe. He produces this list and points out that in it are certain German industrial bonds which are selling on a 5¼% basis due to a local demand, or the fact that there is a probability of their being refunded. Perhaps they may be selling close to the redemption price. The investing committee, after a discussion of other European bonds in the portfolio, reaches its decision and makes out an order to sell the block of German bonds. The proceeds will pay for the purchase of Argentine Cedulas.

Such a procedure as the above is regular practice for investing committees of trusts. The result is apparent. When the German bonds were sold a profit was realized. The transfer of funds from a prosperous section into a depressed section was the object. The profit was an incident. Further, funds that had been working at 5¼% (on a market basis) got a new job on a 6½% basis.

It is considered good practice not to buy on the original purchase all that is permitted of any security under the regulations regarding restriction and diversification. If a portion of the permitted commitment is made in a certain security the Trust still has leeway to buy more of the same on a scale downward in case the market price for that particular security declines to lower levels. Such an operation tends not only to place selected securities in the portfolio at even better bargain prices, but also to keep the costs averaged closer to prevailing prices.

Dr. Leland Rex Robinson, President of Second International Securities Corporation, at the Conference on Foreign Investments, conducted by New York University in cooperation with the Investment Bankers Association, held on October 7, 1926, in the Governing Committee's Room of the New York Stock Exchange, has shown something of the possibilities in a mobile trust portfolio:

"The well established principle that 'bear markets' in some countries are accompanied by 'bull markets' in other countries—that, in other words, not the same phase of business or credit cycle is manifested in every leading market at the same time—should open up to American Investment Trusts lucrative opportunities for international investment. . . . In the 'Conspectus of Business Cycles in Seventeen Coun-

tries' recently published by the National Bureau of Economic Research, it would appear that at the beginning of 1890 prosperity was in full swing in 7 countries, business recession had commenced in 5 countries, and depression prevailed in 5 countries. At the end of 1925, on the other hand, according to these same studies prosperity appeared in 10 countries, recession in 2, depression in 4, and business revival in one country."

In an article appearing in the *New York Times* on June 19, 1927, it is stated, "That rising markets in some countries are accompanied by declining ones in others is a well established fact. It is the endeavor of the Investment Trust, therefore, to buy on any considerable decline in securities' prices in a given market and to liquidate in buoyant markets. This liquidation, of course, is not primarily for the purpose of taking a profit, but is incidental to reinvestment. Marketwise, it is obvious that such an operation if conducted on a sufficiently large scale, would have a healthy effect. The market would receive support when it needed it most and would find a new source of supply when such a supply could be readily absorbed."

In the New York *Herald Tribune*, of July 18, 1927, it is stated by R. Gordon Wasson, that "The Savings Bank, startling as the idea may

appear, offers an excellent comparison with the Investment Trust. Both have one element in common: investors in each entrust their funds to experts for placement. There the similarity ends. The Savings Bank is operated, above all, for infallible safety; it is minutely controlled by State officials and the discretion of its officers is narrowed by limiting the use of funds to a specific list of securities and mortgages. Where safety in Savings Banks is achieved by the negative process of official "don'ts" reliance for safety in Investment Trusts is in able management. Managerial ability can express itself in the art of investment just as logically as in operating an industry, and the investment trust is in business to build up reserves and dividends for stockholders through alert seizures of investment possibilities. . . . A good investment trust security enjoys the great advantage of diversification in the stock or bonds which constitute its backing—a degree of diversification which otherwise is far beyond the reach of any but an extraordinarily rich investor. Furthermore, the securities held by the Trust are being constantly and systematically checked with market developments. Such supervision is almost never practiced by individual investors, . . . An Investment Trust derives its revenues both from the current income

on the securities in its portfolio and from the profits on sales of securities above the price at which they have been bought."

The other general type of trust in this country, i.e., the Bankers' Shares type, or relatively fixed portfolio type, has no such elaborate operation or management. As pointed out in the preceding Chapter, a definite list of securities has been purchased and deposited with the trustee against which participating certificates have been issued, entitling the investor to a pro rata interest in the portfolio and a pro rata interest in the distribution of accruals to that portfolio. In many of these trusts the original list of securities purchased has been selected according to the judgment of the organizers,—or perhaps the selection has been made by one or another of the various professional analytical and statistical organizations. After the original deposit of the portfolio in one or two cases there is entirely no management element present and the securities simply reside with the trustee, who distributes all the income from them that is received each year, pro rata, to the certificate holders. In other cases, under the terms of the indenture, drawn up at the time the trust was originated, the trustees hold back part of the income each year to build up a reserve which may be used

either for taking up stock subscription "rights" which may be received by the fund or for adding more shares of certain stock to the fund, or the cash may be held to maintain a certain fixed dividend rate in case the receipts in any one year are not sufficient to provide a minimum return to the investor in the certificates. In some of these Trusts, the management is permitted to exercise its judgment in making substitutions in the portfolio, and where such is the case, it is customary at certain intervals, to submit a memorandum of these substitutions to the stockholders. The ramifications of the management element in this relatively fixed portfolio type of trust are numerous but not important enough to warrant any particular emphasis. The operation of this type can be handled at relatively small cost and can be placed with any reliable supervisory organization, of which we have many very dependable ones in this country.

As only trusts of the mobile portfolio type have great scope in operation, it is to this class chiefly that the importance of management is paramount. Every authority on the subject particularly stresses the importance of the qualifications and skill of the men who are responsible for the success of the Investment Trust. The investment trust director is vir-

tually the custodian of large sums of money belonging to private investors. On his shoulders is the responsibility of its safety and proper employment. He should be a man of such calibre as to properly appreciate the public trust and of such ability as to make important decisions. Particularly directors or trustees who are in active charge of the operation of the trust's reserves should be men who have had long experience in banking, investing, and the interpretation of economic factors. In the properly organized trust they are completely supplied with current information and details and their principal function is the making of decisions. Inasmuch as there is usually a group of three or five men on the Investing Committee, the investor has the assurance of the balance of opinion of more than one trained executor. One point which the investor must bear in mind in his consideration of the management personnel of the Investment Trust, in addition to the personal qualifications and character, is the matter of any possible personal bias. It is obvious that the management of an Investment Trust should not in any way be affiliated with interests whereby collusion could exist prejudicial to the safety of operation, or exploit the purchasing power of such institutions. While this is a very apparent mat-

ter, it deserves a considerable stress at this point in the development of Trusts in this country. It seems, due to existing conditions, that the Investment Trusts offer so much to the investor for the employment of his funds in a scientific manner that these trusts have developed as rapidly in four or five years as they have in England over approximately fifty years. Where such a development occurs with great rapidity, there is great danger of abuse on the part of unscrupulous individuals who under its practical principles and enthusiastic reception may considerably and dangerously exploit it. An investor holds in his own hands his proper safeguards and can assure himself as to the integrity and experience of the men taking part in the management of the trust.

The qualifications required and the ability and skill expected of the management are all of so high an order that a trust of any great size must expect the management to receive compensation in proportion to results attained. Therefore, any plan or arrangement which permits the management to participate in earnings of the Trust in excess of what is ordinarily to be expected as the conventional return on its resources, has particular merit. Most of the larger Trusts in the United States are so planned that the management does participate

in the better than ordinary earnings in one form or another. In most cases this desirable result is attained through the ownership of the Class B common stock of the Trusts by the management and their remuneration, in addition to the stipulated salary or fee, comes about through the distribution of part of the earnings which remain after distributions on the senior securities and the Class A common stock, which is owned by the private investors. It is generally arranged that the distribution on the Class B common is not as large as that on the Class A common, at least until the Class A common has received a fairly large amount. Another desirable condition in management is that there may be an assurance of continuity by the same men, or group, and this is almost automatically assured through the factor that they own the B shares of common stock, and it is not probable that they would be inclined to sell to another group unless they were to receive a price for their holdings materially in excess of reasonable anticipation for a considerable period in the future. If for any reason another group felt that they could pay abnormally high prices for the control, it would be because they were confident of their own ability to make even better earnings than the original group. The public, at any rate, is assured that it will receive good earnings on its investment

before the management begins to participate.

The management of Investment Trusts is in many instances closely associated with banks, trust companies and brokerage houses. This is particularly true in Boston where there are three trusts in operation carrying names of the prominent banks which have fostered them. At first blush, an investor might feel greater confidence in an organization managed by a bank or trust company's officers, knowing that they represent the responsibilities and devoirs of public custodians, and, further, do not subsist by the merchandising of securities. Such would be an intelligent manner of reasoning in entrusting one's funds to an investment organization. Yet it is very true that investment dealers of sound standing, and with a history of integrity, should be well qualified to have a more or less active hand in trust management. The merchandising of securities in itself, to be successfully accomplished, calls for accurate analysis and a combination of mature judgment and vision to interpret changing conditions.

The American Investment Trust presents a happy and successful combination of effort, in that an active official management has the co-operation of an almost equally active directorate—this in contrast to the management of many foreign trusts where one or two individuals direct the trust's activities.

# CHAPTER V

## Earnings and Reserves

Probably no single consideration is as important to investors as the ability to earn. Every thought of the intelligent employment of surplus funds has to do with what increment they can bring. It is not amiss to point out that whether the earnings are realized through actual dividends received, or through surplus and reserves increased, is a matter for the investor to penetrate carefully. The holder of common shares of an investment trust may be very sure that if a large proportion of the earnings available for his distribution are retained in reserves a great advantage is his. Such undistributed earnings become a source of increasing income because of the trust's ability to use them in addition to its previous capital and surplus. Over a period of years a policy of relatively small dividend distributions results in a progressive growth that is infinitely more profitable to all concerned than the immediate receipt of larger dividends.

In other chapters diversity of holdings in con-

nection with reduction of hazard has been dwelt upon. Probably the most attractive feature about investment trusts to the lay investor is the thought that his funds are spread about in so many channels that no great calamity can transpire to ruin his investment. Most writers on this subject have emphasized this particular feature so strongly that the question of how, and how much, trusts earn has been to some extent neglected.

The relatively fixed trust earns directly through its receipt of interest and dividends from investments. Its current earnings would be constant if it owned bonds, and would fluctuate somewhat if it owned common stocks. In the latter case, prosperous conditions would result in better earnings. In this same type of trust an indirect source of potential earnings arises through appreciation of market prices for its holdings. There is either a gain or loss taking place in the value of its investments almost daily. To a bona fide investor, fluctuations in equity values are not a matter for serious concern. It is gratifying to see an appreciation in portfolio values and distressing to witness a shrinkage. But when the portfolio is sound, the interest and dividends are paid regularly and the certificate holder receives a fairly constant return. When the portfolio is largely in stocks,

the normal growth of business and natural consumption would give rise to larger direct earnings and equity values usually follow earnings.

The management type of trust earns directly through receipt of interest and dividends. It also earns currently from another important source; viz., capital gains. Not having a fixed portfolio, but rather a very mobile one, reinvestments are frequently made in order to take advantage of changing conditions. Through such operation an important incidental profit is consummated which trust managers can expect each year.[1] It must be distinctly understood that profits of this nature are not an objective of the management but merely a result of wise reinvestments. About this particular phase of operation and the disposition of such profits has centred much discussion. Usually profits from this second source constitute what are termed the "better than ordinary" income of trusts and largely determine the earning capacity of the common shares. It is fair and reasonable that when such profits are steadily realized over a period of years a certain portion of them should be distributed for cash, or capitalized through stock dividends when they have been reserved and have augmented the normal earnings of the trust.

[1] See Appendix C.

It has been pointed out that trusts abroad do not include capital gains as income. In this country, however, such earnings must be reported under the head of income, and taxes paid thereon. Whether it would, or no, therefore the American trust must include, besides interest and dividends received, all profits derived from the sale of securities from its portfolio. In view of results attained, at home and abroad, the investor in the management trust may reasonably expect this second source of earnings.

Contrast of investment trusts, with banks and insurance companies, has been made in respect to regulatory supervision. While it is highly desirable, for the protection of investors against unscrupulous exploitation, that supervision should be made of trusts, it is due to the latitude enjoyed by trust managers that good earnings can be realized. It is very difficult for regulatory bodies to encompass a broad field of investments in a restricted list. The available supply of bonds on the "legal lists" in many states is so small that if the demand were satisfied prices for such securities would be bid up beyond values. Legislation looking toward the relief of this situation is receiving consideration. Even in lists of prescribed securities, changes might occur to seriously upset their values before they were removed from sanction.

The investment trust, stimulated by the great possibilities of taking constant advantage of economic changes, is its own regulatory body. Its aim is to buy investments at bargain prices, and to hold them only so long as they are sound, or until prices for them become so high for any reason that the funds which they represent can be more profitably employed elsewhere.

Where the management is able to demonstrate its ability in conducting an investment trust program according to the very desirable plan of shifting its resources about to make the best use of divergent conditions, it should very definitely establish a program of setting aside reserves from earnings every year, and should build these up constantly. By doing this, not only is a bulwark being established against unforeseen conditions which might arise, but also, two other desirable results accrue; first, a normal growth of earnings is fostered, which will mean increased dividends in the future; and second, through the building up of equities, future financing may be effected on a more advantageous basis to the Trust, which will be another source of increasing earnings available to the junior securities.

We have seen in Chapter II that the English, and more particularly the Scottish trusts, have built large reserves and there is little doubt

that this is the chief reason for their consistent dividend record as to continuity and growth in rate. Granted that reserves are valuable in building, as mentioned in the following chapter, it is yet more important that they should be established for conservative reasons. The best of human judgment is limited and it is not always possible to call the turn in future events. Financial storms and rapidly falling markets may not always be foretold. Events might easily transpire which would find the management unable to pilot the ship smoothly without proper ballast.

The International Securities Corporation of America, on November 30, 1927, had surplus and undivided profits of $2,607,797, and outstanding share capital of $28,001,469. In addition to this visible reserve was the additional differential between the value of the portfolio as carried on the books (at cost less investment reserve) and its market value which is stated as being in excess of book value. This, being one of the older trusts, has of course been able to build its reserves to a higher percentage than some trusts more recently organized.

Incorporated Investors, organized more recently, had on December 31, 1927, surplus and undivided earnings of $69,900, and outstanding capital of $4,707,977. In this case, securities in

the portfolio are carried at cost and there is an invisible reserve due to appreciation in market value.

Power and Light Securities Trust on January 31, 1928, had a surplus of $39,709 and outstanding capital of $515,981.

Insuranshares Fund F.27, organized in 1927, had at the close of the calendar year a paid-in surplus of $159,181 in addition to undistributed income of $46,157 bringing the total to $205,338. The face value of the outstanding A shares at this time was $1,800,000. The portfolio was carried at cost ($1,933,945). The actual market value is given in the report, as of December 31, 1927, as being $2,567,237. This additional reserve, while not constant, is a tremendous factor of value to the certificate holder, protecting him against possible declines in market prices.

It is found that most trusts in America carry their holdings at cost. It would be unwise to write-up prices of securities in the portfolio at the close of the year unless the entire enhancement were transferred to reserves. Particularly in the early years of growth is it wise for managers to be most conservative in dividends until it has demonstrated its earning and managerial ability.

A Survey of Activities and Forms of Investment Trusts with Recommendations for Statu-

tory Regulation by the New York State Department of Law, by Albet Ottinger, Attorney General of New York State, embodies the following which is apropos:

"Obviously, the best policy for American investment trusts to follow is to state clear cash income from all sources—interest, dividends, underwriting participations, and profits, realized on sale of investments. From this income, adequate appropriations should be regularly made to surplus and reserves, regardless of the proportion of the total cash income received over any given period, from any one of the above-mentioned sources. For there are bound to be lean years."

## CHAPTER VI

### Qualifications

Provided the diversity and management elements are adequately applied to a trust, the investor still must analyze the matter of restrictions and safeguards. Depending on the extent of modifications as to the latitude of management in a direct ratio is involved the personal element of those in control of the destinies and conduct of the trust. In certain trusts in this country we find well defined rules as to the proportion of the portfolio that may be invested in certain types of security, in certain geographic sections of the world and in the quality of securities that may be bought. While it is desirable that the management should have sufficient leeway to permit a profitable operation of the portfolio, yet it should be borne constantly in mind that a trust is primarily created for purposes of wise and safe investment and that capital gains are only incidental to the successful movement of the portfolio from market to market. At the time of the Baring Crisis it was the trusts which had gone in

for speculation, or were confined to one class of investment which suffered most heavily. The management is not too much handicapped when the articles of the trust call for certain investment qualities in all securities that are bought. Without laying down any hard and fast rules, it should be pointed out that book values of stock are not as important as a well developed earning capacity over a period of time. Yet, however, investors do like to know that the cost price to them (to the trust) is regulated in some direct relation. Regulations as to earning power are desirable to have included in the articles—both as to the number of times that interest or dividends have been earned over a period, and also as to the relation of cost and earning capacity. For instance, a stock paying \$6 annually, having earned \$18 for each of the preceding four years might be considered a wise purchase for an investment trust at \$100—particularly in view of the fact that 18% was being *earned* on the investment. This would be particularly true if there were over \$100 worth of good assets back of a share. Of course it is part of the business of the management to determine whether the business is of a stable nature, what conditions of competition exist, and other similar factors.

It is more desirable that book values should

be specified as to bonds than as to stocks. In this case it is a question of buying obligations that are secured in case of interest default and there are often many bonds that the individual investor cannot properly analyze that are perfectly well secured. Such investment bargains are ideal for a trust when prices are down perhaps due to depressed conditions in an industry or temporary tightness in money conditions. Earning power is of distinct importance, of course, in this class of security as well as in stocks.

In both stocks and bonds the trust should confine itself to securities that are marketable for the important reason that if any of its holdings fall below the specified investment standards they should be sold within a definite stipulated period. This effects a curtailment of loss to the trust and reduces the probability of entire loss on account of changing conditions affecting any of its investments.

Outside of investment regulations and standards, there should be certain provisions in the articles of a trust as to reserves set up against the senior securities. The investor in the bonds and preferred shares is particularly interested that a sinking fund shall be set aside from annual earnings against the maturity of the trust's obligations. Also reserves should be set

aside against the bond interest and preferred stock dividend requirements. Such reserves, which might never be touched if the trust is properly managed, really increase the funds available for earnings from investment and re-investment.

In the quasi fixed-portfolio type of trust where participating, or trust, certificates are issued owning a pro rata interest and receiving a pro rata division of income, it is more desirable that part of the income shall be withheld from distribution and set aside each year to build up a reserve for two purposes. Primarily this would assure the investor a continuity of income from year to year at a minimum rate, and incidentally over a period of time would build up the rate of income through re-investment of such reserves.

In the matter of policy, and conduct, of the operation it is desirable that it be expressly prescribed that the trust shall not invest sufficient in any enterprise to assume responsibility in management or control.

As an instance of regulations and restrictions determining the investment background, one of the large American trusts has at present the following:

1. Funds shall be distributed among at least 400 seasoned, marketable securities.

2. Not more than 70% of the resources of the Trust may be invested in the United States, or 55% in England, or 35% in any other country.

3. Not more than 10% of the assets of the Trust may be invested in securities representing any distinct class of business or industry.

4. Not more than 1¾% of the assets of the Trust may be invested in any one security other than governmental securities.

5. No bonds or stocks of any railroad, public utility or industrial enterprise are eligible for purchase unless the business has been established for at least four years.

6. Railroad, industrial and public utility bonds are not eligible for purchase unless the net assets (at book value) back of such bonds are at least 200% of the purchase price.

7. Preferred and common shares of railroad public utility and industrial companies are not eligible for purchase unless they have a book value of at least 150% of the purchase price.

It will be seen that under these restrictions a known diversity must be realized, geographically and by type of industry or business. And that certain requirements must be met that produce an investment standard. Yet the management has wide leeway to operate in various markets and is not handicapped by its regula-

tions to the extent of being limited to three or four markets for its principal operations.

Contrasted to this trust is another with no less than fourteen different regulations and restrictions. After a careful analysis of this latter trust's published investment standards it is found that while the major part of the operation is confined to three general markets geographically as much as 75% of the resources can be domiciled in stocks of any nature whatever.

The investor can readily analyze the published restrictions of trusts and determine for himself whether the standards set up are conservative enough for his needs. It bears repetition to again say that provided the management is of the highest order the restrictions and regulations are among the least important factors in trust conception and operation.

In the fixed type of trust, or "banker's share" conception, restrictions and regulation usually exist only appertaining to the disposition of funds realized from redemptions, consolidations, etc., and what few changes are occasionally made are usually reported to the shareholders periodically. About the only important aspect of restrictions in a fixed trust is for the investor to know that the diversified portfolio which has attracted his interest may not be sud-

denly transformed into a list of securities he would not originally have desired to buy. It must be constantly borne in mind that this type of trust primarily exists because the investor, not trusting any management, likes the diversity gained and the elements embodied in a stated portfolio.

# CHAPTER VII

## Development in the United States

In the United States the investment trust, as an important institution, has made its advent since the World War. We have had holding companies with highly diversified portfolios, organized to manage and control through majority ownership, their subsidiary companies. We have had financial organizations akin in many respects to investment trusts. The insurance companies with most of their resources invested, and supervised by trained organizations, would be quite similar to trusts were it not for the fact that their main purpose is the business of underwriting insurance. Indeed, one or two investment trusts were in existence before the war, but they were small.

One of the first investment trusts introduced here was the International Securities Trust (now Corporation) of America, organized in 1921 in Massachusetts. This was patterned after the British conception of trusts with a mobile portfolio under the supervision of the trustees. It was very carefully drawn up and embodies

recognized ideas of structure and regulations. Being new to American investors in its conception, it required at first a great deal of educational work on the part of its organizers and fiscal agent to distribute its share capital. While the principle of diversity was readily acceptable, the question of management, and its latitude in operation, has required several years' demonstration to establish its place in the confidence of investors.

Partly on account of public scepticism as to whether even good management could successfully compass such a comprehensive operation as transporting a highly diversified portfolio from market to market, a great majority of the trusts formed in this country have taken diversity in portfolio as their motive and either eliminated or greatly reduced the management factor. They have been organized with a selected list of stated securities which were named in the prospectus. And against this list were issued the participating certificate previously mentioned.

It is fitting at this point to show the advantages that are in favor of the investor, and the disadvantages that are found in this latter type of trust. The original purpose of showing the investor not only a diversification of interest behind his money, but also the exact invest-

ments that make up the trust portfolio, is definitely accomplished. Therefore all doubt as to exactly what he is buying is removed from his mind. Beyond this knowledge, there is another distinct advantage to the investor. The mechanism of operation calls for actual deposit of the securities comprising the portfolio with a reputable trustee—usually a bank or trust company—who releases the sale of the participating certificates as the portfolio securities are deposited. This practically assures the investor, if he pays outright for and receives his certificates, that no thefts can occur to rob the portfolio, and in the usual case, where substitutions or reinvestments can be made only under most strict regulations, the certificate holder knows that even incompetence on the part of the management can not severely affect the values behind his investment. The actual regulations of each specific trust may contain other advantages to the investor which have been previously mentioned such as building up reserves from earnings to assure a minimum annual rate of dividends and to build up equities and future earnings. In the case of many, the certificate holder holds the privilege of liquidating his own investment at will by calling for redemption of his certificates by the trustee. This privilege obtains in a revokable trust.

On the other hand, there are other angles which are opposed to the best interests of the investor, provided he desires his funds to work for him to their best advantage. In a later chapter it will be shown that there are disadvantages to publishing the itemized holdings in the portfolio, and that the actual knowledge of them is of very little import to the shareholder beyond the fact that it gives him assurance that the trust management is living up to the investment regulations and conducting the operation along the proper paths. Upon the elimination of the management element hinges the most important objection to these trusts. The investor can have no doubt that the equities behind his partipating certificates are going to rise and fall with the markets. If such trusts are formed at a time, and holding securities in a market, when prevailing prices are high, a decline in the market will reduce the liquidating values to a point below that prevailing at the time of organization. While such a shrinkage is only a bookkeeping one in case the investor can hold on, it becomes an actual one in case he is forced to sell or redeem. It is evident, however, that this shrinkage would not be as great as the spectacular drop in some securities but would be the average loss occurring to the entire portfolio. The possibility, available to a management

trust, of anticipating a declining market and shifting the portfolio into a more favorable environment is eliminated and the investor is wedded to one market and its prosperity or vicissitudes. Again, geographical distribution of portfolio is not the rule, but rather an exception in this type of trust. Its fortunes are mixed up not only with one market but also with the prosperity of one nation. This type of trust rarely can, or does, exercise any borrowing power as is done in the British trusts. Upon the borrowing power can be realized materially better earnings which accrue from the difference between the cost of borrowed funds and the earnings realized from them.

Dr. Leland Rex Robinson, quoted in the *Wall Street Journal* of December 14, 1925, states:

> "Critics of the British type of investment trust as introduced in America, as well as those advocating unchanging collateral, overlook one of the chief tenets of wise investment—periodical inspection of the securities with the idea of eliminating any issue which changing economic or industrial conditions have made undesirable to hold longer, or the taking of profits in securities which have appreciated considerably."

Constant allusion has been made to two theoretical extremes of type of investment trust in America—the general management type constantly changing its portfolio make-up and fea-

turing mobility, and the fixed trust with a stationary portfolio and practically no management feature. Between these two types of trust are ramifications of one or the other which to catalogue and describe in detail would be a separate task in itself. Not all trusts may be classed as one or the other, and combining forms, or at least potentially so, of both exist. The investor is often bewildered by the many garbs in which are dressed the various trusts. Management companies and fiscal agents, trusts with underwriting privileges, and specialized trusts with narrow limits of operation abound. But the investor, having decided whether he desires his money in a permanent residence or not, can select the vehicle best suited to his requirements.

# CHAPTER VIII

## General Management Type

A large group of trusts in this country operating along the British lines is the American Founders Trust group. This particular group has obtained over a hundred million dollars of resources, in a period of approximately seven years; derived from sale of its debentures and shares and accumulation of reserves.

The American Founders Trust may be best described as a management organization which provides investment service to affiliated investment trusts, viz.: International Securities Corporation of America (organized in 1921), Second International Securities Corporation (organized in 1926), and United States and British International Company, Ltd. (organized in 1928). The American Founders Trust is also a holding company by reason of ownership, in these three trusts, of large amounts of the Class B common stock. The American Founders Trust also is to a certain extent an investment trust in itself—employing a large part of its capital in the operation of an investment portfolio under conventional restrictions and under

the general modus operandi of the British practice.

Increase in capital and surplus of the American Founders Trust in recent years is as follows:

| | |
|---|---|
| Nov. 30, 1925 | $ 4,138,749.05 |
| Nov. 30, 1926 | 12,373,646.44 |
| Nov. 30, 1927 | 24,157,159.69 |

Gross cash earnings in the same period were as follows:

| | |
|---|---|
| Year ended Nov. 30, 1925 | $ 153,337.42 |
| Year ended Nov. 30, 1926 | 1,277,280.23 |
| Year ended Nov. 30, 1927 | 2,829,093.30 |

For the years ended Nov. 30, 1926, and Nov. 30, 1927, earnings were over 14% of the average net capital and paid-in surplus.

On Nov. 30, 1927, the following distributions of portfolio existed:

| | | *Per Cent.* |
|---|---|---|
| I. Geographically— | United States | 63.512 |
| | British Empire and Possessions | 5.112 |
| | Central and South America | 3.528 |
| | Continental Europe | 24.267 |
| | Asia | 3.581 |
| | | 100% |
| II. Classification— | Governmental | 8.878 |
| | Transportation | 3.353 |
| | Public Utilities | 6.418 |
| | Industrials | 14.602 |
| | Mortgage Banks | 3.319 |
| | Banks and Trust Companies | 4.018 |
| | Insurance Companies | 0.232 |
| | Investment Organizations | 30.348 |
| | Extractive Industries | 5.149 |
| | Cash | 23.683 |
| | | 100% |

| | | Per Cent |
|---|---|---|
| III. Kind— | Bonds and Cash | 47.802 |
| | Preferred Stocks | 24.213 |
| | Common Stocks | 27.985 |
| | | 100% |

The policy of the American Founders Trust is outlined in the Annual Report to stockholders, in the president's letter dated March 29, 1928, as follows:

"A competent auditing staff verifies and confirms all financial transactions of the Trust. This is in addition to the annual audit of the independent public accountants. Marginal transactions are prohibited. Securities are purchased and sold only for cash. Neither securities, foreign exchange nor other values may be sold 'short'. Securities are never sold to the public on a partial payment plan. The Trust does not deal with its officers, or trustees, as principals, or with firms with which they are identified, without the written authorization of the Board of Trustees exclusive of the vote of any interested trustee. The Trust has published its investment regulations; it reports its adherence to such regulations, and classifies its investments in a number of ways so as to reveal the diversification effected. The Trust is not under the dominance of any banking house or any group of investment bankers. It is free and independent in the selection of investments. A

broad, free market exists for the securities of the Trust. The Trust does not maintain a market for its own securities."

Compensation for investment service furnished to the three affiliated trusts is as follows:

International Securities Corporation of America pays an annual fee of 4% of gross earnings after taxes.

Second International Securities Corporation pays an annual fee of ½% of average resources.

United States and British International Company, Ltd., pays an annual fee of ¾% of the first $10,000,000 of average aggregate resources (after deducting its investment in its British subsidiary) and ½% on the average aggregate resources in excess thereof.

The International Securities Corporation of America is the largest trust in the American Founders group and conservatively follows the British type in structure and operation.

In a letter to shareholders dated March 28, 1927, it is stated that "The Trust holds more than 500 investments which comprise various bonds and stocks all of a seasoned character, with good marketability, representing practically all stable lines of industry, and originating in over thirty different countries.—At the regular monthly meetings of the Trustees, com-

plete data pertaining to the fundamental conditions and to the current investment operations of the Trust are systematically reviewed. For the information and guidance of the Trustees and the Investment Committee a careful market appraisal of the Trust's investments is made regularly as of the close of each month.''

In the shareholders letter of March 26, 1928, it is stated that, ''In order to provide an independent and continuous verification of the assets, arrangements were made with Messrs. Haskins and Sells, Certified Public Accountants, for a continuous audit. Under this plan a representative of the auditors is continuously engaged on the Corporation's affairs, is present at all openings and closings of safe deposit vaults, verifies all cash, checks all purchase and sale vouchers, and has immediate access to all reports from depositories wherever located. Independent auditors thus maintain a daily verification of the assets of the corporation.''

On November 30, 1927, the following distributions of portfolio existed:

| | | *Per Cent* |
|---|---|---|
| I. | Geographically— | |
| | United States and Possessions.... | 29.789 |
| | British Empire .................. | 1.873 |
| | Central and South America....... | 7.629 |
| | Continental Europe ............. | 57.412 |
| | Asia .......................... | 3.297 |
| | | 100% |

II. Classification and Kind—

| | | Per Cent | |
|---|---|---|---|
| *Bonds*— | | | |
| | Governmental | 37.519 | |
| | Transportation | 3.310 | |
| | Public Utility | 8.791 | |
| | Industrial | 13.578 | |
| | Agricultural Bank | 7.755 | |
| | Commercial Bank | 3.522 | |
| | Land Association | 2.326 | |
| | Extractive Industries | 1.716 | |
| | | | 78.517 |
| *Pfd. Stocks*— | | | |
| | Transportation | 0.376 | |
| | Public Utility | 0.528 | |
| | Industrial | 2.104 | |
| | Banks & Trust Companies | 0.002 | |
| | Investment Organizations | 0.197 | |
| | Extractive Industries | 0.046 | |
| | | | 3.253 |
| *Common Stocks*— | | | |
| | Transportation | 0.335 | |
| | Public Utility | 0.101 | |
| | Industrial | 1.009 | |
| | Banks & Trust Companies | 1.370 | |
| | Insurance Companies | 0.003 | |
| | Extractive Industries | 0.296 | |
| | | | 3.114 |
| Bankers' Acceptances | | | 0.031 |
| Treasury Notes | | | 3.860 |
| Cash | | | 11.225 |
| | | | 100% |

The First Federal Foreign Investment Trust reports a similar classification of investment holdings as of Dec. 31, 1927. It is interesting to note the large holdings of bonds residing here as in the preceding table, and the small amount of preferred stock. The list follows:

## GENERAL MANAGEMENT TYPE

### Type

| | Per Cent |
|---|---|
| Government Bonds | 27.98% |
| Municipal Bonds | 10.87% |
| Public Utility Bonds | 8.38% |
| Railroad Bonds (Government Guaranteed) | .96% |
| Railroad Bonds | 1.13% |
| Government Bank Bonds | 11.78% |
| Commercial Bank Bonds | 6.08% |
| First Mortgage Industrial Bonds | 21.87% |
| Railroad Participating Preferred Stock (Government Guaranteed) | .87% |
| Public Utility Preferred Stock | .25% |
| Commercial Bank Common Stock | 5.06% |
| Public Utility Common Stock | .32% |
| Government Bank Common Stock | 2.39% |
| Industrial Common Stock | 2.06% |
| | 100.00% |

### Geographical

| | |
|---|---|
| North America | 5.36% |
| Central America | 6.77% |
| South America | 21.78% |
| West Indies | 4.64% |
| Europe | 60.14% |
| Asia | 1.31% |
| | 100.00% |

These trusts have attained diversification in their portfolios that is without doubt not possible of achievement for the ordinary investor. Management is permitted a fairly general scope. Reserves are being established.

Between these trusts—representing, with other good ones, the British principles,—and the relatively fixed portfolio type without broad management powers, are many trusts which

have desirable features of either extreme. For instance, Incorporated Investors has wide powers as to management but at the close of 1927 had virtually confined its investments in the United States, with its holdings in thirty-one different companies. These companies, however, control approximately a total of *500* different companies engaged in varied important basic lines of occupation—industrial, public utility, transportation, etc. Geographic distribution was not effected beyond the domestic field at that time. The number of shares owned and the actual companies held are published in the report to stockholders.

The Mutual Investment Trust is similar to the general management type in that it permits the discretionary element in its operation, surrounded of course by restrictions as to amounts invested in one corporation, in any single industry, and as to marketability of resources. Its form of structure is quite unique and embodies certain qualities which should appeal to the investor. Two classes of certificates are issued by the trust, A and B. The Class A certificate is sold to the investor, and the management is required to invest a sum equal to 10% of the face value of the A certificate as a subordinate investment. This is for an assurance of continued distributions of income on Class A cer-

tificates at the rate of at least 6% per annum, and as a further protection to principal. B shares are received by the management in return for their subordinate investment. The entire income from class B certificates is applicable to protect the preferential return on Class A certificates.

After payment of 6% on both classes of certificates, all additional earnings are distributable equally betwen the two classes (subject to the accumulation of a reserve amounting to 12½% of the total fund.)

The investor realizes that in this arrangement the management assumes a definite capital risk and to realize a return on its own investment must operate the Trust with sagacity and skill.

The holdings of this Trust as of Dec. 31, 1927, are almost entirely investments in the United States.

"The Mutual Investment Company, managers of the trust, are entirely independent of, and have no connection with, any company whose securities are held in the trust. Moreover, no one who is identified with the management is interested, directly or indirectly, in any brokerage firm, investment house or bank which can in any way affect his judgment in the selection of investments."

# CHAPTER IX

## Fixed, Limited and Specialized Trusts

An example of the type of trust with practically no management factor and yet desirable to an investor on account of diversity gained and selection of splendid securities is the Fixed Trust Shares.

In this case a definite specified unit of common stocks is bought by the organizers and deposited with the trustee. Against this are issued one thousand participating shares which are offered to investors at a price based on the current market for the block. The investor actually knows exactly what his money goes into and can at any time calculate for himself the liquidating value. The unit, or block, is as follows:

| *Railroads* | (Shares) |
|---|---|
| Illinois Central Railroad | 4 |
| Louisville & Nashville Railroad | 5 |
| New York Central Railroad | 4 |
| Northern Pacific Railway | 3 |
| Pennsylvania Railroad | 8 |
| Southern Pacific Co | 4 |
| Southern Railway Co | 3 |
| Union Pacific Railroad | 4 |

# FIXED TRUSTS

| | (Shares) |
|---|---|
| *Standard Oil Group* | |
| Standard Oil Co. of California | 4 |
| Standard Oil Co. of Indiana | 4 |
| Standard Oil Co. of New Jersey | 8 |
| Standard Oil Co. of New York | 8 |
| Vacuum Oil Co | 3 |
| *Industrials* | |
| American Can Co | 5 |
| American Radiator Co | 5 |
| American Tobacco Co. (Class A) | 3 |
| E. I. duPont de Nemours & Co | 3 |
| Ingersoll-Rand Co. | 5 |
| International Harvester Co | 2 |
| National Biscuit Co | 3 |
| Otis Elevator Co | 3 |
| Timken Roller Bearing Co | 3 |
| United Shoe Machinery Corp | 5 |
| United States Steel Corp | 7 |
| F. W. Woolworth Co | 2 |
| *Utilities and Quasi Utilities* | |
| American Telephone & Telegraph Co | 8 |
| General Electric Co | 4 |
| Pullman Co. | 2 |
| Western Union Telegraph Co | 5 |
| Westinghouse Electric & Mfg. Co | 3 |

This block of 130 shares of stock has been selected as covering a cross section of "basic industrial activity" to create a "composite security representing stock in companies which serve, directly or indirectly, every basic need." —More than 80% in value of the underlying stocks are rated A or better by Moody's Investors Service.

No change may be made in the stock unit deposited with the Trustee, nor in the number of shares in the unit, except in cases of recapitalization, merger consolidation, reorganization or

sale of property in any of the companies. In any such case the stock unit held by the Trustee for each 1,000 Fixed Trust Shares is changed to take account of the split up, or exchange of stock, of the particular company.

In addition to the deposited unit of stocks the organizers deposit a cash Reserve Fund to stabilize and safeguard dividends. Out of any increased earnings provision is made to increase this Reserve Fund to a certain extent.

To illustrate specialized types of trust such as are practically confined to investment in one field such as public utility, banks, etc., it is interesting to inspect two extreme cases: "Insuranshares Trust Certificates", and "Oil Shares Incorporated." To the individual who is particularly desirous of investing in one special field such a trust offers, beside the diversity obtained, the assurance of selection among the best companies followed by intelligent supervision by a management making a particular study of that field and probably specially trained in that particular branch of business.

The Insuranshares Trust Certificates are issued against deposit with the Trustee of a block of insurance company stocks diversified as to life, fire, marine, casualty, surety, etc. The certificate holders are entitled to two distinct interests in the trust and their certificates are

divided into ownership of A and B shares. The A shares own pro rata their face value in the original portfolio deposited, and are entitled to all regular dividends paid thereon at time of deposit. The B shares are issued in the proportion of 118 for every 100 A shares issued. The certificate holders receive a B share for each A share and the balance of B shares become the property of the management company. B shares are entitled to all extra income of whatever nature, such, for instance, as appreciation in the portfolio above face value of A shares, extra cash dividends, "rights", etc. Through this arrangement the management participates in the success of the trust to the extent of approximately 15% of all accruals above the original investment at face value and original regular dividends, and the investor to the extent of about 85%. This is a strong inducement to the management to produce results and offers a fair division of those results. To an investor, wishing to place his funds in the desirable field of insurance, this trust offers a better vehicle than the average man can find for himself. This particular trust makes a policy of withholding part of its better than ordinary earnings to build reserves, thus building equities and a future increase in earning power.

Oil Shares Incorporated is an investment

company of the management type organized to invest its funds in the securities of the Standard Oil group, the leading independent oil companies, and other companies related to the oil industry.

The By-Laws specify that not less than 50% of the company's total funds must be invested in the securities of the Standard Oil group of companies and their subsidiaries. Not more than 25% in the securities of the listed and established "independent" oil companies or supply companies. This trust has at its command the services of the Petroleum Research Corporation with large facilities for the study and analysis of conditions affecting the oil industry. The company is required to issue detailed annual reports of its affairs. Such a trust is undoubtedly of greater service to the average investor believing that the oil industry holds promise of future earnings, than any casual or halfway qualified judgment he might exercise in his own selection in that field.

It would require a large volume, indeed, to furnish a fair and detailed description of these trusts which have been cited as examples of varying styles of conception and operation, and it should be stated that there are a great number of other trusts which are as well designed and operated as these. The compass of this work

however is to explain and illustrate the trusts in this country, and to fashion for the investor a yardstick to employ for his use in gauging the type of trust best suited to his needs.

# CHAPTER X

## The Investor's Yardstick

Enough has already been said about management to indicate that, as in any enterprise, it is the most important element, considered from every angle, for the investor to analyze before committing his savings. Ability can often be gauged from past experience, and training can be ascertained. Perhaps the most proper angle in which to look at the management is to ask one's self, "Would I choose these men for the trustees of my affairs?" Then, as has been pointed out in Chapter 4, it is particularly important to know that the management is not affiliated with other interests in such a way that it would be prejudiced in a free selection of securities for the trust. Unless the shareholder can know that such possible bias can not exist to affect his diversified list of investments in the trust, he had better not buy its bonds or shares. Such a possible situation could only take place in a trust where the management has leeway to make changes in the holdings. The danger be-

comes definitely apparent when one considers that cupidity might cause the officers to exchange the good securities for poor ones for an outside consideration. In such an event the assets of the trust would be unsaleable and would decline in value to such an extent that the investor's interest might be totally lost. Of course, dishonesty can ruin an investment trust as well as any other institution, which brings about a reiteration of the necessity of carefully examining the record of the officers and directors. This particular feature of investment trust management has been brought up by critics on the assumption that brokers with unsaleable securities would be tempted to "unload" them on institutions in which they had an interest in management. Investors must take warning that their funds do not support "dumping grounds."

The question of how much of the investor's money goes to work for him in the trust is another important matter. It is not usually possible for him to learn just what is the cost to the trust in the sale of its capital or obligations. But the brokers know this, at least to a fairly accurate degree and are usually willing to indicate whether or not this "load" or burden of organization is heavy or light. Some trusts, particularly those of the participating certificate type, have made a practice of disclosing their

costs of raising capital. Mention has been made of this in Chapter III.

Closely related to the above is the matter of how much paid in equity has been placed in the trust to insure a margin of safety to the investor. This does not apply to a great extent on the limited trusts, but is of more moment to the investor in the general management type with the mobile portfolio. In this instance it is reassuring to know that the management, or founders, have paid in certain amounts in return for equity shares, confident that the efforts on their part will produce success enough to warrant their investment.

The question of overhead expense including cost of statistical departments and collection of information is another element to determine as nearly as possible. Its proportion to gross earnings or average resources can usually be determined in the case of trusts with a history of operation.

One of the highly important points to learn about a trust is whether the purchases and sales which it negotiates are on a conventional commission, or brokerage, basis—or whether it is in any way possible for an agent to realize large profits through having the trust as a customer. In case any loop hole existed whereby an agent could buy at one price and sell to a

trust at a considerable advance (or buy from the trust at prices below the market) it is obvious that a real danger would exist for the investor.

Such a procedure could be legally carried on and absorb profits that really belong to the shareholders. It is distinctly unethical, however, and many of our trusts definitely state that their securities are bought and sold on a commission basis and the trust receives the entire benefit of prevailing prices.

The investment limitations are in some respects one of the least important factors provided the management commands respect and confidence. Where they are too strict the management might be severely handicapped in effecting an operation from one market to another and otherwise employing its resources to best advantage. Yet in other respects, these limitations are very important in protecting the investor. A definite application of this statement can be appreciated in consideration of the unit type of trust where the investor buys certificates, not principally because he expects the portfolio to be moved about as conditions warrant doing so, but chiefly because he likes the list of securities originally selected and the diversity which they provide him. In this case any substitutions in the portfolio affect his

original judgment of the merit of the trust and should be so controlled that the tenor of the unit is not radically altered.

The ability to liquidate resources is highly desirable whatever the type and, provided the policy or the by-laws include definite regulations on this subject the investor need not spend a great deal of time on this consideration. It is interesting to note that in January, 1927, the International Securities Trust of America estimated that 80% of its holdings could be converted into cash in 48 hours without sacrifice, and the balance in four weeks. Many trusts confine themselves to securities which are listed on a stock exchange. There are thousands of unlisted securities which are very actively traded in and often among these "unlisted" securities an alert management can find values that are out of proportion with price and afford investment opportunities.

To briefly review the investor's warning, a fixed type of trust must be carefully studied as to the general diversity effected by type of industry and geography and as to the quality of component items in the portfolio. The restrictions which will maintain this general scheme of investment must then be ascertained to be such that there will be no danger of radical alteration in the structure that has met with orig-

inal approval. And finally there must be a reassurance that the investor is not paying too high a premium for the cost of having this pro rata ownership in a portfolio.

The warning in regard to a management trust has almost wholly to do with the integrity and capability of officers and directors. Confidence in them must be warranted by what they have done, and are, and reliance on their judgment is the keynote of investment in that type of trust.

## CHAPTER XI

### Criticisms

It is a natural and reasonable question, uppermost in the minds of inquiring investors, whether or not investment trusts would suffer heavily in the event of a declining market. Provided a trust had not transported its holdings away from a market before prices declined, it would find itself in the position of an individual investor and would encounter a shrinkage in the market value of its holdings. But the trust, with a widely held portfolio, has an advantage over the investor. It is the factor of averages. Having its invested resources in more issues than most individuals can command, and since complete statistical facilities have backed the management in its choice of investments the likelihood of pronounced loss in market values is minimized. While the greatest misfortune would come to such trusts as were confined to the market which declined, the investor has a reassurance as to his dividends on account not only of the diversity of securities in his portfolio but further because of reserves which had been

built up to provide his minimum return in just such times.

As for the trust which was operated in such a way as to move its portfolio away from high markets when economic danger signs appeared, its resources would be safely domiciled in other markets, awaiting the opportunity to re-enter the declining market in its depressed stages. In such a trust the investor is not apt to suffer investment shrinkage so much but it is not improbable that the price for the stock of his investment trust itself may decline with the general decline in prices of other good securities.

The United States Investor in its issue of March 3, 1928, has the following to say about the operation of mobile portfolio types of trust:

"Where the markets of one country are up, perhaps higher than they ought to be, the markets of another country are apt to be down, even to ridiculously low levels, and the markets of still a third country will be midway between top and bottom levels. . . . At this very moment, when the American market is actually top-heavy, the markets of Italy, of Hungary and Austria, of Japan, and to some extent of Germany, are low. None of these foreign markets is in the position of the American market, which is not only quite at the top, so far as values are concerned, but is actually over-staying its welcome there. In some of these countries, a rise in values is under way, that has still a good further distance to go. So, when the tobogganing movement occurs in the Ameri-

can market, it will have no parallel in these other countries. In most of them, prices of securities will continue to rise, even while those of America are sliding downward.

"Let a trust have the right sort of information for a guide, and it can find wonderful opportunities in this broad range of markets. It can travel in and out of different markets with its money, taking a toll of profit from each market in turn. . . . The plan is simple enough. It is thoroughly sound as well. The only condition required is that a trust shall have the proper organization for knowing when to get into and out of each market and shall have the facilities for operating in that market." . . .

The management type of trust has been described as a "blind pool" by some of its critics. Such a weird expression appeals immediately to the imagination and, unless a fair investigation is made of its merit as a criticism, might quickly and unreasonably condemn a trust of this sort to the investor. There is no doubt as to the value to an investor of a knowledge of the securities owned in a trust. It is almost an essential in consideration of a relatively fixed trust which is considered good, or indifferent, according to the make-up of its portfolio. In case of a management type of trust on the other hand, where the portfolio is being constantly altered to conform with changing conditions, knowledge of the actual items on a given date is

of value to the shareholder chiefly in satisfying his curiosity, or his desire to know what the trust has considered wise to buy. At a later date the previous knowledge of portfolio detail is not very valuable. What is distinctly important, however, is a knowledge of the restrictions which must be observed by the trust, and the knowledge of whether these restrictions are being followed. There is, from the point of view of the trust organization, a disadvantage to publishing the holdings as such a procedure operates to disclose the current nature of the operation and would be almost like publishing to the public all the benefits of the expensive and trained organization which has been developed. Certainly the stockholders of a management type of trust do not want to lose the earnings resulting from the information obtained by their managers and the skill in being foremost in taking advantage of markets that are favorable to buying and selling.

The International Securities Corporation of America (formerly International Securities Trust of America) entirely disclosed its affairs and operations about a year ago to a "Security Holders' Examining Committee" composed of a consulting engineer, the president of a bank, and the editor of a financial magazine. Such a committee representing the stockholders, and

approved by them, can determine whether or not the trust is properly managed and the securities owned are of the proper standard.

It is interesting to read parts of the report of this committee to the stockholders:

> "The Trust is in a sound condition. Those in control of the administration follow a conservative policy in the conduct of its affairs. . . . Ample evidence was found that the interests of the shareholders are paramount in the deliberations and actions of the Trustees and Officers."

> "With the growth of capital there has been a corresponding increase in the Bond Interest Reserve Fund and Preferred Share Dividend Reserve Fund. Appropriations to their reserves have been made regularly as required by the Declaration of Trust and the Agreement with the Guaranty Trust Company. The committee is satisfied from the report of the auditors that the reserves required are being properly set aside and maintained by the Trust."

> "A conservative investment policy has been pursued by the Trust. It is the policy of the Trust to follow the British practice in carrying securities at cost. The market value of securities owned was substantially in excess of cost. . . . We examined lists of securities owned by the Trust and are satisfied that investments are made in accordance with the provisions of the Trust."

Provided the shareholders can ascertain that the management in a general trust is living up

to such standards as are called for in the Articles, or Deed, there is really but little satisfaction in knowing what the items in the portfolio have been at any given time.

A criticism which has been made of the American trusts of the management type is that they include capital gains as income, whereas in England such profits are considered as accruals to principal, reinvested, and not reported as income. The latter practice is without question more conservative. It is a matter of opinion whether disbursing part of such yearly profits is bad policy. Trusts in this country must report such profits as taxable income, and in the opinion of many they are justified in distributing part of them in dividends provided reserves are built up in the right proportion to capital total income from all sources.

While realized profits are incidental to the movement of the portfolio, investment trust managers can count on some annual revenue from them.

The principal danger in consideration of this question would seem to be in respect to whether or not the trust were so capitalized that dividends on the junior issues were dependent on capital gains, and, if so, whether too large a portion of them were distributed. A properly capitalized trust, without too heavy a load of

interest, and preferred stock, service requirements, with paid in equities should reasonably expect some earnings on its junior shares from rental of its portfolio to world markets, and profits from capital turnover would then become "velvet" and would justify certain extra dividends or even stock dividends to capitalize surplus accruals from time to time.

The main criticism of the relatively fixed portfolio type of trust is that it cannot be moved away from a high market and its elements must decline with a falling off in security prices. This criticism is justified from the angle of speculation. From the angle of investment, however, it bears repetition to point out that a broad list of securities will decline on the average only of the entire list. An investor buys to hold for income chiefly. And possible appreciation over a period of time is only a qualification. He is certain in the fixed type of trust of having certain dividends during bad times because all of the good securities in the portfolio could not conceivably defer dividends. Whereas the omission of one or two dividends in an individual list might seriously impair the income, in such a trust a few omissions would make very little difference.

So many new investment trusts have been formed and offered to American investors in

1928 that a universal inquiry has arisen as to how far this movement will progress and what will be its outcome. A discussion of this closes the book, but the fact of so many trusts springing into existence deserves criticism. The criticism should be directed chiefly towards investors. Demand creates supply of such institutions. A supply of healthy institutions is splendid but the American investor has shown himself as fervid on this subject as any other fad that has swept the country and will find himself bewildered by organizations, called investment trusts by their promoters, which will take their toll of savings unless great care is exercised by buyers of their securities. The reputable banking houses have formed trusts which conform to the best practice and investors will save themselves much grief if they seek advice from competent sources.

# CHAPTER XII

## Outlook

There has been very little definite legislation relative to investment trusts either in the State legislatures or in Congress. A certain amount of investigation has taken place in several states, notably in New York State. Investment bankers are inclined to favor such investigations in the interest of public welfare and legislation that will be constructive in laying down sound principles of investment trust operation. The subject has created such widespread interest, and certain trusts have had such marked success in their operations to date, that there is definite danger of exploitation of uninformed investors.

The *Wall Street Journal* in an edition on July 18, 1927, spoke concerning the investigation of the state attorney general of New York, in part as follows:

"So far from carrying any unfavorable implication, a comprehensive study of the investment trust field, to be followed by publicity and general discus-

sion of the findings, would have come about sooner or later without action by the state authorities. Quite likely it would have been undertaken by some such organization as the Investment Bankers' Association on the initiative of members directly interested, not specifically because of any danger threatening the investing public, but only because this country has much to learn about a medium of investment rapidly assuming an important place in American finance." . . .

"A widespread inquiry, with the conclusions drawn by men qualified to draw them, could hardly fail to improve the technique of investment trust management and at the same time teach possible purchasers of their shares much of what self-interest requires them to learn."

It is apparent that with a rapid growth, such as we have seen in the last six years, of any particular institution there must be a distinct desire, on the part of individuals subscribing to its development, for whatever it may have for them in the way of benefits. It is to be hoped that the American public, intensely interested in investment trusts, will be so discreet in its support as to size up intelligently those trusts that exist, or may be founded, and, without need of legislation or expensive investigations, select the wheat from the chaff. This is the surest answer to unhealthy development of a desirable institution and to the prosperity and permanent

standing of the trusts which are soundly and honestly conceived and operated.

One result of the advent of investment trusts in the United States may likely be a certain amount of price stabilization in our security markets. Trusts will be on the look-out for investment bargains, and if security prices drop to levels below actual values they will be interested in buying when market support is most needed. Inversely, if prices are inflated beyond real values they will be ready to sell when absorption is easy. It is estimated by various sources that we are rapidly approaching $1,000,000,000 of investment trust securities of all kinds in this country. There were over $84,000,000,000 of stocks and bonds listed on the New York Stock Exchange on October 1, 1927. If all the investment trust resources in this country were placed in New York Stock Exchange securities, the floating supply might be affected to a certain extent—but, with large portions of our investment trust holdings in foreign securities, the actual effect on security prices is probably not of great moment yet. Certainly when values become bargains on account of low prices, and when values become over-priced, the effect of investment trust buying and selling will be most beneficial. It will on one hand restore public confidence, and on the other will

check over-speculation in a time of abundant prosperity.

The investment trust may have a most far-reaching effect in American finance beyond individual expectations. If it develops here at the present rate for a protracted period the power of trust buying and selling will be a tremendous factor in many fields. Large financing operations may be mostly absorbed by the trusts and the public sale of individual issues may be very limited. Costs of first class financing may be materially reduced for this reason. The entire business of investment by individuals, for themselves, may become less of a problem when, and as, the trusts demonstrate their capabilities as custodians. The individual investor, engrossed in his own occupation, is going to welcome an instrument for the residence of his savings whereby he can avoid worries as to safety and expect a better rental than he is equipped to produce. In the broader sense, the investment trust may prove to be of the utmost value to the nation in stimulating friendly relations abroad and international trade due to recognition of values and conditions in foreign countries.

An officer of one of the leading New York banks recently stated that every bank today should be familiar with the details of several

good investment trusts which could be recommended to its customers. It is highly probable that institutions offering such excellent opportunities for the profitable employment of savings may become developed in America to an extent parallel to our savings banks. In the event of such development, the relatively few trusts of today which are in operation will become patterns for future trusts in proportion to the success which they attain. We are probably to witness a tremendous growth of these institutions in the next few years, and while a great many are coming into existence this year they are only the pioneers of a new investment era.

# APPENDIX A

## Portfolios of Investment Trusts

## MUTUAL INVESTMENT COMPANY

### Investment Trust Fund
### Empire Trust Company, Trustee

SECURITIES OWNED DECEMBER 31, 1927

| Quantity | Description of Security |
|---|---|
| Shares | INDUSTRIAL COMMON STOCKS |
| 5 | Air Reduction |
| 7 | Allied Chemical & Dye |
| 25 | Allis Chalmers Manufacturing Co. |
| 45 | American Can Co. |
| 30 | American Car and Foundry Co. |
| 16 | American Smelting & Refining Co. |
| 100 | Amsterdam Trading Co. (American Shares) |
| 8 | Atlantic Refining |
| 4 | Baldwin Locomotive Works |
| 15 | Borden Co. |
| 20 | California Packing Corp. |
| 4 | J. I. Case Threshing Machine Co. |
| 25 | Central Aguirre Sugar Co. |
| 20 | Commercial Solvents—"B" |
| 50 | Corn Products Refining Co. |
| 25 | Crucible Steel Co. of America |
| 4 | E. I. Du Pont de Nemours & Co. |
| 25 | Fajardo Sugar Co. |
| 8 | General Electric Co. |
| 17 | General Railway Signal |
| 100 | Great Western Sugar Co. |
| 70 | International Cement |
| 5 | International Harvester Co. |

| Quantity | Description of Security |
|---|---|
| Shares | INDUSTRIAL COMMON STOCKS (*Continued*) |
| 15 | International Salt |
| 6 | International Silver Co. |
| 50 | Kennecott Copper Corp. |
| 15 | S. S. Kresge Co. |
| 3 | Lackawanna Securities Co. |
| 10 | Mack Truck Co. |
| 12 | Montgomery Ward |
| 7 | National Biscuit Co. |
| 11 | National Sugar Refining Co. |
| 7 | Otis Elevator Co. |
| 12 | Pullman, Inc. |
| 7 | R. J. Reynolds Tobacco—"B" |
| 100 | St. Joseph Lead |
| 15 | Sears Roebuck |
| 40 | Texas Corp. |
| 15 | Texas Gulf Sulphur |
| 20 | Union Carbide & Carbon Corp. |
| 11 | United Drug Co. |
| 7 | United Fruit Co. |
| 4 | United States Cast Iron Pipe Co. |
| 23 | United States Steel Corp. |
| 7 | Vacuum Oil |
| 36 | Victor Monaghan Co. |
| 24 | Westinghouse Air Brake Co. |
| 20 | Westinghouse Electric & Mfg. Co. |
| 7 | F. W. Woolworth Co. |
| 20 | Youngstown Sheet & Tube Co. |
| | UTILITY COMMON STOCKS |
| 31 | American Telephone and Telegraph Co. |
| 6 | Brooklyn Edison Co., Inc. |
| 43 | Consolidated Gas Co. |

# APPENDIX A

| Quantity | Description of Security |
|---|---|
| Shares | UTILITY COMMON STOCKS |
| 33 | Consolidated Gas, Electric Light & Power Co. |
| 20 | Electric Bond and Share Securities Co. |
| 45 | International Telephone & Telegraph Co. |
| 4 | Laclede Gas Light Co. |
| 20 | Montana Power Co. |
| 100 | Southern California Edison Co. |
| 10 | United Gas Improvement Co. |
| 6 | Western Union Telegraph Co. |
| | RAILROAD COMMON STOCKS |
| 5 | Atchison, Topeka & Santa Fe Ry. Co. |
| 12 | Atlantic Coast Line R.R. Co. |
| 8 | Baltimore & Ohio R.R. |
| 5 | Chesapeake & Ohio R.R. |
| 11 | Chicago & Northwestern Ry. Co. |
| 9 | Chicago, Rock Island & Pacific Ry. Co. |
| 6 | Delaware, Lackawanna & Western R.R. Co. |
| 16 | Erie R.R. |
| 41 | Great Northern Railway Co. (Pfd.) |
| 7 | Illinois Central R.R. Co. |
| 8 | Lehigh Valley Railroad Co. |
| 7 | Louisville & Nashville R.R. Co. |
| 19 | New York Central R.R. Co. |
| 19 | New York, New Haven & Hartford R.R. Co. |
| 5 | Norfolk & Western Ry. Co. |
| 11 | Northern Pacific Ry. Co. |
| 16 | Pennsylvania R.R. Co. |
| 7 | Pittsburgh & West Virginia Ry. Co. |
| 23 | Reading Company |
| 29 | St. Louis-San Francisco R.R. |
| 23 | Southern Pacific Company |
| 8 | Southern Railway Co. |
| 26 | Union Pacific Railroad Co. |

| Quantity | Description of Security |
|---|---|
| Shares | BANK AND INSURANCE COMPANY STOCKS |
| 5 | Fidelity Phenix Fire Insurance Co. |
| 355 | Insurance shares Trust Certificates |
| | INDUSTRIAL PREFERRED STOCKS |
| 20 | Chrysler Corp.—"A," 8% |
| 50 | Dodge Brothers, Inc., Cumulative 7% |
| 20 | Paramount-Famous-Lasky Corp. Cum. 8% Conv. |
| 20 | United States Rubber Co. 1st Non-Cum. 8% |
| | UTILITY PREFERRED STOCKS |
| 20 | Georgia Power 1st 6% |
| 20 | Milwaukee Electric Ry. & Light Co. Cum. 7% |
| | INDUSTRIAL LONG TERM BONDS |
| 1 M | Bush Terminal Co. 5s, 1955 |
| 4 M | Cudahy Packing Co. Deb. 5½s, 1937 |
| 4 M | Swift & Co. 5s, 1932 |
| 2 M | Wilson & Co. 1st 6s, 1941 |
| | UTILITY LONG TERM BONDS |
| 3 M | American Power & Light Deb. 6s, 2016 |
| 4 M | Brooklyn Manhattan Transit 6s, 1968 |
| 2 M | Detroit City Gas Co. 1st "A" 6s, 1947 |
| 2 M | Kansas Electric Power Co. 1st "A" 6s, 1937 |
| 4 M | Public Service of N. J. 6s, 1944 |
| 3 M | Southeastern Power & Light Co. Deb. "A" 6s, 2025 |
| 3 M | Toledo Edison Co. 1st 7s, 1941 |

# APPENDIX A

| Quantity | Description of Security |
|---|---|
| Shares | RAILROAD LONG TERM BONDS |
| 2 M | Chicago, Burlington & Quincy R.R. "B" 1st Ref. 4½s, 1977 |
| 1 M | Chicago, Milwaukee & St. Paul Ry. Sec. 1st 6s, 1934 |
| 2 M | Chicago, Rock Island & Pacific Ry. Co. 1st Ref. 4s, 1934 |
| 2 M | Erie & Genesee River 6s, 1957 |
| 2 M | Penn., Ohio & Detroit R.R. 1st & Ref. "A" 4½s, 1977 |
| 4 M | Rio Grande Western Ry. Co. 1st Cons. & Coll. 4s, 1949 |
| | FOREIGN GOVERNMENT LONG TERM BONDS |
| 2 M | Argentine Ext. 6s, 1959 |
| 2 M | Kingdom of Belgium 7s, 1955 |
| 6 M | Brazil Ext. 4s, 1966 |
| £2,000 | Bulgaria 4½s, 1967 |
| 2 M | German Govt. 7s, 1949 |
| 2 M | Japanese Govt. 6½s, 1954 |
| 2 M | Queensland Ext. 7s, 1941 |
| | FOREIGN CORPORATION LONG TERM BONDS |
| 2 M | Mortgage Bank of Denmark 6s, 1970 |
| 2 M | Oriental Development Co., Ltd., 6s, 1953 |
| | SHORT TERM SECURITIES |
| 3 M | American Telephone & Telegraph Co. 4s, 1929 |
| 2 M | Associates Investment Co. 6s, 1929 |
| 1 M | Auburn Automobile Co. 6s, 1929 |
| 2 M | Baltimore & Ohio 6s, 1929 |

| Quantity | Description of Security |
|---|---|
| Shares | SHORT TERM SECURITIES (*Continued*) |
| 3 M | Bank of East Prussian Landowners Assn. 6s, 1930 |
| 1 M | Free State of Bavaria, Ext. 6½s, 1930 |
| 3 M | Berlin City Electric 6½s, 1929 |
| 2 M | Celite Co. 1st "A" 6s, 1930 |
| 5 M | Central Indiana Power Co. "A" 6s, 1928 |
| 3 M | Chesapeake & Ohio Com. 4½s, 1930 |
| 2 M | Cleveland, Cinn., Chicago & St. Louis Ry. Co. 6s, 1929 |
| 2 M | Compania Cubana, Gtd. 6s, 1929 |
| 2 M | Delaware & Hudson, Sec. 7s, 1930 |
| 5 M | City of Duisberg 7s, 1929 |
| 4 M | Edith Rockefeller McCormick Trust 6s, 1928 |
| 3 M | General Power & Light Co. 6s, 1928 |
| 3 M | Goodyear Tire & Rubber Co. 5s, 1928 |
| 4 M | Guantanamo & Western R.R. 6s, 1929 |
| 2 M | Hamburg American Line 6½s, 1929 |
| 2½ M | Investment Security Co. of Texas 6s, 1928 |
| 7 M | Imperial Japanese Govt. 4s, 1931 |
| 2 M | Key System Transit Co. 5½s, 1928 |
| 3 M | Lake Shore & Michigan So. Ry. Co. 4s, 1928 |
| 4 M | Louisville Railway 1st Cons. 5s, 1930 |
| 2 M | Marland Oil Co. 5s, 1929 |
| 2 M | Minn. St. Ry.—St. Paul City Ry. 5s, 1928 |
| 2 M | Morris & Co. 1st S. F. 7½s, 1930 |
| 1 M | Mortgage Guarantee Co. of America 6s, April 1, 1928 |
| 1 M | Mortgage Guarantee Co. of America 6s, October 1, 1928 |
| 2 M | Motor Finance Corp. 6s, 1929 |
| 2 M | City of Munich 7s, 1928 |
| 1 M | Munson S.S. 6s, 1928 |

# APPENDIX A

| Quantity | Description of Security |
|---|---|
| Shares | SHORT TERM SECURITIES |
| 10 M | J. J. O'Leary Bond & Mortgage 6s * |
| 3 M | Pacific Finance Corp 5½s, 1929 |
| 5 M | City of Paris Ext. Loan 6s, 1930 |
| 1 M | Portland Railway Co. 1st & Ref. 5s, 1930 |
| 2 M | Remington Arms Co. Inc. 5½s, 1930 |
| 3 M | Republic El Salvador 6½s, 1929 |
| 3 M | City Santiago de Chile 6s, 1928 |
| 4 M | Sinclair Consolidated Oil Corp 6s, 1930 |
| 3 M | Sinclair Crude Oil Purchasing Co 6s, 1928 |
| 4 M | Southern Pacific Co. 20 yr. Conv. 4s, 1929 |
| 6 M | Toho Electric Power Co. 6s, 1929 |
| 6 M | Tokyo Electric Light Co. 6s, 1928 |
| 2 M | U. S. Rubber Co. 6½s, 1929 |
| 3 M | Universal Pictures 6s, 1930 |
| 2 M | Wisconsin Central R.R. 5s, 1930 |
| 2 M | State of Wurttemberg, Cons. Mun. 7s, 1928 |
| 2 M | State of Wurttemberg, Cons. Mun. 7s, 1929 |

* Payable on 10 days' notice.

## INCORPORATED INVESTORS

The last quarterly report to stockholders showed the following common stock holdings as of December 31, 1927.

2300 American Can Company
1500 American Gas & Electric Company
1200 American Smelting & Refining Co.
1000 Atchison, Topeka & Santa Fe Railway Company
1100 Atlantic Coast Line Railway Co.
100 Bankers Trust Company
1200 Chesapeake Corporation
1700 Columbia Gas & Electric Corp.
1100 Continental Can Company, Inc.
2300 Corn Products Refining Company
600 E. I. du Pont de Nemours & Company, Inc.
1600 Electric Bond & Share Securities Corp.
50 First National Bank of the City of N. Y.
1800 Fleischmann Company
1900 General Electric Company
1800 Gillette Safety Razor Company
200 Guaranty Trust Company of N. Y.
700 International Harvester Company
500 Liggett & Myers Tobacco Company
800 Montgomery Ward & Company, Inc.
1000 National Biscuit Company
1300 New York Central Railroad Co.
1000 Sears, Roebuck & Company
1000 Simmons Company
2000 Standard Oil Company of Indiana
3400 Standard Oil Company of New Jersey
1200 United Fruit Company
1200 United States Steel Corporation
1000 Vacuum Oil Company
2500 Westinghouse Air Brake Company
700 F. W. Woolworth Company

## UNITED STATES ELECTRIC LIGHT AND POWER SHARES, INC.

### TRUST CERTIFICATES—SERIES A.

| Security | Par Value in Each Block |
|---|---|
| Adirondack Power & Light Corporation 7% Cum. Preferred | $100 |
| Alabama Power Company $7 Cum. Preferred | 100 |
| American Gas & Electric Company Common | 500 |
| American Light & Traction Company, Common | 200 |
| American Power & Light Company Common | 700 |
| Associated Gas & Electric Company $6 Cum. Preferred | 300 |
| Birmingham Electric Company Cum. Preferred | 100 |
| Brooklyn Edison Company, Inc. Stock | 300 |
| Buffalo, Niagara & Eastern Power Corporation $1.60 Cum Preferred | 200 |
| Carolina Power & Light Company $7 Cum. Preferred | 100 |
| Cincinnati Gas & Electric Company Stock | 100 |
| Cleveland Electric Illuminating Company 6% Cum Preferred Series of 1923 | 200 |
| Columbia Gas & Electric Company Common | 200 |
| The Columbus Railway, Power & Light Company 6% Cum. First Preferred | 100 |
| Commonwealth Edison Company Stock | 400 |
| Commonwealth Power Corporation Common | 700 |
| The Connecticut Light and Power Company 6½% Cum. Preferred | 200 |
| Consolidated Gas, Electric Light & Power Co. of Baltimore, Common | 300 |

UNITED STATES ELECTRIC LIGHT AND POWER SHARES, INC.

TRUST CERTIFICATES—SERIES A. (*Continued*)

| Security | Par Value in Each Block |
|---|---|
| Consolidated Gas Company (New York) Common | 400 |
| Consumers Power Company (Maine) 6% Cum. Preferred | 100 |
| The Detroit Edison Company Stock | 300 |
| Duquesne Light Company 7% Cum. First Preferred Series "A" | 100 |
| The Edison Electric Illuminating Company of Boston Stock | 100 |
| Electric Bond and Share Company 6% Cum. Preferred | 300 |
| Electric Bond & Share Securities Corporation Stock | 200 |
| Electric Power & Light Corporation $7 Cum. Preferred | 700 |
| Federal Light & Traction Company Cum. Preferred | 200 |
| Georgia Power Company Preferred $6 Cum. | 200 |
| The Hartford Electric Light Company Common | 100 |
| Illinois Power & Light Corporation 7% Cum. First Preferred | 700 |
| Indianapolis Power & Light Company 6½% Cum. Preferred | 400 |
| Kansas City Power and Light Company $7 Cum. First Preferred Series "A" | 200 |
| Long Island Lighting Company 6% Cum. Preferred Stock | 100 |
| Los Angeles Gas and Electric Corporation 6% Cum. Preferred | 200 |
| Louisville Gas & Electric Company (of Kentucky) 7% Cum. Preferred. | 200 |
| Metropolitan Edison Company $6 Cum. Preferred | 100 |

| | |
|---|---|
| Middle West Utilities Company 7% Cum. Prior Lien Stock | 200 |
| The Montana Power Company Common | 100 |
| New England Power Association 6% Cum. Preferred | 500 |
| National Power & Light Company $7 Cum. Preferred | 500 |
| Nebraska Power Company 7% Cum. First Preferred | 200 |
| New Orleans Public Service Inc. Cum. Preferred | 200 |
| The Niagara Falls Power Company 7% Cum. Preferred | 100 |
| The North American Company Common | 900 |
| North American Edison Company $6 Cum. Preferred | 200 |
| Northern States Power Company (of Delaware) 7% Cum. Preferred | 700 |
| Pacific Gas & Electric Company Common | 500 |
| Penn-Ohio Edison Company 7% Cum. Prior Preference | 700 |
| Pennsylvania Power & Light Company $7 Cum Preferred | 100 |
| The Philadelphia Electric Company Common | 300 |
| Portland Electric Power Company 7% Prior Preference Stock | 400 |
| Public Service Company of Colorado 6% Cum. First Series A, Preferred | 800 |
| Public Service Company of Northern Illinois Common (No par) | 100 |
| Public Service Electric & Gas Company 6% Cum. Preferred 1925 Series | 300 |
| Puget Sound Power & Light Company 7% Cum. Prior Preference | 300 |
| Rochester Gas & Electric Corporation 6% Cum. Preferred, Series D | 200 |
| Scranton Electric Company 6% Cum. Preferred | 100 |
| Southern California Edison Company Common | 500 |
| Standard Gas & Electric Company 7% Cum. Prior Preference | 500 |

## UNITED STATES ELECTRIC LIGHT AND POWER SHARES, INC.

### TRUST CERTIFICATES—SERIES A. (*Continued*)

| Security | Par Value in Each Block |
|---|---|
| The Syracuse Lighting Company, Inc., 6½% Cum. Preferred | 100 |
| The Toledo Edison Company 7% Cum. Preference Stock Series A | 200 |
| United Electric Light Company (Springfield, Mass.) Stock | 100 |
| United Illuminating Company Stock | 100 |
| The United Light & Power Company (Maryland) Class A Cum. Preferred | 600 |
| Utilities Power & Light Company 7% Cum. Preferred | 700 |
| Virginia Electric & Power Company 7% Cum. Preferred | 300 |
| Washington Water Power Company Common | 200 |
| The West Penn Electric Company 7% Cum. Preferred | 600 |
| The Worcester Electric Light Company Stock | 100 |
| | $20,800* |

* As of April 23, 1927.

# APPENDIX A

## POWER AND LIGHT SECURITIES TRUST

The following is a complete list of securities held by the Trust at the close of business January 31, 1928:

COMMON STOCKS

| Shares | |
|---|---|
| 100 | American Gas & Electric Company |
| 900 | American Power & Light Company |
| 600 | American Water Works & Electric Company |
| 660 | Commonwealth Power Corporation |
| 85 | Chesapeake Corporation |
| 100 | International Paper Company |
| 100 | Massachusetts Gas Companies |
| 300 | New Orleans Public Service, Inc. |
| 200 | North American Company |
| 1,000 | Salt Creek Producers Company |
| 100 | Tampa Electric Company |

OPTION WARRANTS

| | |
|---|---|
| 400 | Electric Power & Light Corporation |

PREFERRED STOCKS

| | |
|---|---|
| 500 | American & Foreign Power Co. Inc. \$7 Cum. |
| 500 | American & Foreign Power Co. Inc. \$7 Cum. Second |
| 150 | Arkansas Light & Power Co. \$7 Cumulative |
| 200 | Central & South West Utilities Co. \$7 Cum. |
| 100 | Central States Electric Corp. 7% Cumulative |
| 100 | Community Water Service Co. \$7 Cumulative |
| 350 | Continental Gas & Electric Corp. 6-8% Participating |
| 600 | Electric Power & Light Corp. \$7 Cumulative Second |
| 600 | Florida Power & Light Co. \$7 Cumulative |
| 250 | General Public Utilities Co. \$7 Cumulative |

## POWER AND LIGHT SECURITIES TRUST
*(Continued)*

| Shares | PREFERRED STOCKS |
|---|---|
| 100 | Huyler's of Delaware, Inc. 7% Cumulative |
| 150 | International Paper Co. 7% Cumulative |
| 100 | New England Public Service Co. $7 Cum. |
| 50 | Northern Ohio Power & Light Co. 7% Cum. |
| 300 | Rhode Island Public Service Co. $2 Cum. |
| 50 | Southern Ice & Utilities Co. $7 Cumulative |
| 500 | Thatcher Mfg. Co. $3.60 Convertible |

BONDS

| | |
|---|---|
| $ 2,000 | Northern Ohio Power Co. 10-Year Secured 7s, 1935 |
| $10,000 | Southwest Gas Company First Mtge. 6½s, 1937 |
| $25,000 | Toho Electric Power Co., Ltd. 6% Notes, 1929 |
| $15,000 | Independent Oil & Gas Co. 6% Conv. Deb., 1939 |

## STANDARD INVESTING CORPORATION

SECURITIES OWNED FEBRUARY 29, 1928

### Foreign Bonds

*External Dollar Bonds*

FRANCE

| | |
|---|---|
| $ 54,000 | Cities of Lyons-Marseilles-Bordeaux, External 6s, 1934 |
| 100,000 | Paris-Orleans Railroad Company, External 7s, 1954 |
| 100,000 | Republic of France, External 7s, 1949 |

GERMANY

| | |
|---|---|
| 100,000 | Central Bank for Agriculture, Farm Loans 6s, October, 1960 |

# APPENDIX A

| | |
|---|---|
| 50,000 | City of Berlin, External 6½s, 1950 |
| 3,000 | City of Dresden 7s, 1945 |
| 100,000 | Electric Power Corporation, First Mortgage 6½s, 1950 |
| 101,000 | General Electric Company, Germany, Debenture 7s, 1945 |
| 50,000 | German Consolidated Municipal Loan 7s, 1947 |
| 116,000 | German Government, External 7s, 1949 |
| 50,000 | Good Hope Steel and Iron Works, Mortgage 7s, 1945 |
| 100,000 | Mansfeld Mining & Smelting Company, Mortgage 7s, 1941 |
| 99,000 | Rhein - Main - Danube Corporation, Guaranteed Debenture 7s, 1950 |
| 50,000 | Rhein-Westphalia Electric Power Corporation, Direct Mortgage 7s, 1950 |
| 38,000 | Stettin Public Utilities Company, First Mortgage 7s, 1946 |

### Denmark

| | |
|---|---|
| 45,000 | United Steamship Company, Ltd. (of Copenhagen), External 6s, 1937 |

### Czechoslovakia

| | |
|---|---|
| 97,000 | Czechoslovak Republic, External 7½s, 1945 |

### Austria

| | |
|---|---|
| 100,000 | Province of Lower Austria 7½s, 1950 |

## STANDARD INVESTING CORPORATION
(*Continued*)

*External Dollar Bonds* (*Continued*)

HUNGARY

| | |
|---|---|
| 50,000 | City of Budapest, External 6s, 1962 |
| 15,000 | European Mortgage & Investment Corporation, First Lien Farm Loan 7½s, 1966 |
| 49,000 | Hungarian Consolidated Municipal Loan 7s, 1946 |
| 90,000 | State Loan of the Kingdom of Hungary, External 7½s, 1944 |

JUGOSLAVIA

| | |
|---|---|
| 100,000 | Kingdom of the Serbs, Croats and Slovenes, External 8s, 1962 |

BULGARIA

| | |
|---|---|
| 50,000 | Kingdom of Bulgaria 7s, 1967 |

SOUTH AMERICA

| | |
|---|---|
| 93,000 | City of Rio de Janeiro, External 8s, 1947 |
| 200,000 | Government of the Argentine Nation, External 6s, May, 1961 |

JAPAN

| | |
|---|---|
| 75,000 | Ujigawa Electric Power Company, Limited, First Mortgage 7s, 1945 |

*External Foreign Currency Bonds*

| | |
|---|---|
| £11,600 | Austrian Pre-War Debt Redemption 5s, 1933 and 1935 |
| 10,000 | City of Tokyo 5% Sterling Loan of 1912 |
| Fl. 250,000 | Gewerkschaft Carolus Magnus, Guaranteed Debenture 6½s, 1957 |
| Fcs. 686,000 | State of Hungary 6½s, issue of 1924 |

# APPENDIX A

## *Internal Bonds*

### Belgian

| | |
|---|---|
| Fcs. 1,375,000 | City of Antwerp 6s, 1930 |
| Fcs. 1,500,000 | Les Grands Magasins "a l'Innovation," Participating Debenture 6½s, 1957 |
| Fcs. 3,000,000 | Société de Credit Communal de Belgique 6s, 1987 |

### Germany

| | |
|---|---|
| R.M. 100,000 | Preussisch Hypothekenbank Liquidationspfandbriefe 4½s |
| R.M. 75,000 | Preussisch Pfandbriefbank Liquidationspfandbriefe 4½s |
| R.M. 75,000 | Preussisch Central Boden Liquidationspfandbriefe 4½s |

## *Domestic Bonds*

| | |
|---|---|
| $ 50,000 | Anaconda Copper Mining Company, Convertible Debenture 7s, 1938 |
| 50,000 | Andes Copper Mining Company, Convertible Debenture 7s, 1943 |
| 100,000 | Sidney Blumenthal & Company, Inc. (The Shelton Looms), First Mortgage 7s, 1936 |
| 50,000 | Compañia Cubana 6% Guaranteed Notes, 1929 |
| 100,000 | Shawsheen Mills 7% Guaranteed Notes, 1931 |
| 50,000 | Webster Mills 6½% Guaranteed Notes, 1933 |

## *Domestic Stocks*

| Shares | Rails |
|---|---|
| 300 | Alabama Great Southern Railroad Company, Ordinary |

## STANDARD INVESTING CORPORATION
*(Continued)*

*Domestic Stocks (Continued)*

| Shares | Rails (*Continued*) |
|---|---|
| 500 | The Atchison, Topeka & Santa Fe Railway Company, Common |
| 500 | Consolidated Railroads of Cuba, 6% Cumulative Preferred |
| 1,000 | The Great Northern Railway Company, Preferred |
| 1,300 | The New York Central Railroad Company |
| 2,000 | The New York, New Haven & Hartford Railroad Company, 7% Cumulative Convertible Preferred |
| 1,000 | Northern Pacific Railway Company, Common |
| 300 | Southern Pacific Company |
| 1,000 | Southern Railway Company, Common |
| 200 | Union Pacific Railroad Company, Common |
| | Industrials |
| 300 | American Arch Company |
| 1,700 | American Ice Company, Common |
| 100 | The American Tobacco Company, Common |
| 500 | Sidney Blumenthal & Company, Inc. (The Shelton Looms), 7% Cumulative Preferred |
| 500 | Central Aguirre Sugar Company |
| 1,000 | Continental Can Company, Inc., Common |
| 250 | Curtiss Aeroplane Export Corporation, 6% Cumulative Guaranteed Preferred with |
| 250 | Warrants each for 5 shares Common at 20 |

# APPENDIX A

| Shares | Industrials |
|---|---|
| 500 | Curtiss Aeroplane Export Corporation, Common |
| 100 | E. I. du Pont de Nemours & Company, Common |
| 150 | The Fajardo Sugar Company of Porto Rico, Common |
| 800 | The Fleischmann Company, Common |
| 250 | Foster Wheeler Corporation, $7. Cumulative Convertible Preferred |
| 500 | General Electric Company, Common |
| 500 | General Motors Corporation, Common |
| 1,000 | The Gillette Safety Razor Company |
| 1,000 | The International Nickel Company, Common |
| 500 | Keith-Albee-Orpheum Corporation, 7% Cumulative Convertible Preferred |
| 500 | Spencer Kellogg & Sons, Inc. |
| 600 | Kennecott Copper Corporation |
| 500 | Lawrence Portland Cement Company |
| 1,000 | P. Lorillard Company, Common |
| 400 | McCall Corporation, Common |
| 1,100 | Mead Johnson & Company, Common |
| 600 | The Nash Motors Company, Common |
| 500 | Phelps Dodge Corporation |
| 1,000 | Pratt & Lambert |
| 2,000 | Sinclair Consolidated Oil Corporation, 8% Cumulative Preferred |
| 200 | Sterling Products, Inc. |
| 1,100 | Texas Gulf Sulphur Company |
| 1,000 | United States Gypsum Company, Common |

| | Utilities |
|---|---|
| 1,000 | American Telephone & Telegraph Company |

## STANDARD INVESTING CORPORATION
*(Continued)*

*Domestic Stocks (Continued)*

| Shares | UTILITIES (*Continued*) |
|---|---|
| 1,000 | Columbia Gas & Electric Corporation, Common |
| 600 | Consolidated Gas Company of New York, Common |
| 1,000 | Duke Power Company |
| 1,000 | Electric Power & Light Corporation, $7. Cumulative Preferred |
| 1,000 | Engineers Public Service Company, $7. Cumulative Preferred |
| 500 | International Telephone & Telegraph Corporation |
| 1,000 | Lone Star Gas Corporation |
| 2,000 | The North American Company, Common |
| 94 | Savannah Electric & Power Company, 8% Cumulative Debenture Series A |
| 500 | Southeastern Power & Light Company, $7. Cumulative Preferred |
| 1,000 | The Tennessee Electric Power Company, 7% Cumulative First Preferred |
| 500 | The United Gas Improvement Company |
| 1,000 | The United Light & Power Company, Class B Cumulative Participating Preferred |
| | BANKS |
| 200 | Canadian Bank of Commerce |
| 65 | National City Bank of New York |
| 150 | National Shawmut Bank of Boston |

# APPENDIX A

## *Foreign Stocks*

| Shares | AUSTRIAN |
|---|---|
| 600 | "American Shares" Austrian Credit-Anstalt |
| | **BELGIAN** |
| 13,000 | Société Nationale des Chemins de Fer Belges, 6% Participating Preferred |
| 3,000 | Charbonnages de la Louvière et Sars-Longchamps |
| | **BRITISH** |
| 600 | Carreras, Ltd., Ordinary "A" |
| 1,200 | Carreras, Ltd., Ordinary "B" |
| 2,000 | Imperial Tobacco Company (of Great Britain and Ireland), Limited, Ordinary |
| | **DANISH** |
| Kr. 52,000 | Burmeister & Wain—Maskin og Skibsbyggeri |
| 285,600 | Copenhagen Handelsbank |
| 120,000 | Copenhagen Telephone Company |
| 20,000 | De Danske Spritfabrikker |
| 120,000 | De Danske Sukkerfabrikker |
| 32,000 | De Forenede Bryggerier |
| 40,000 | Jydsk Telephone Company |
| 100,000 | Privatbanken i Kjobenhavn |
| | **DUTCH** |
| Fl. 70,000 | Amsterdamsche Bank |
| 27,000 | Deli Maatschappij |
| 26,000 | Deli-Batavia Maatschappij |
| 18,000 | Handelsvereeniging "Amsterdam" |
| 25,000 | Senembah Maatschappij |
| 19,000 | Tabak Maatschappij Arendsburg |

## STANDARD INVESTING CORPORATION
(*Continued*)

*Foreign Stocks* (*Continued*)

| Shares | FINNISH |
|---|---|
| 3,330 | Kansallis-Osake-Pankki |
| 1,850 | Kymmene A/B |
| 10,750 | Nordiska Foreningsbanken |
| | FRENCH |
| 20 | Banque de France |
| 400 | Banque Générale du Nord (full paid) |
| 10 | Compagnie d'Assurances Générales sur la Vie des Hommes |
| 250 | Compagnie d'Electricité de l'Ouest-Parisien, "B" |
| 1,000 | Compagnie Electrique de la Loire et du Centre |
| 50 | Compagnie Générale d'Electricité |
| 9,000 | Compagnie Lorraine d'Electricité |
| 50 | Compagnie de Produits Chimiques et Electrometallurgiques Alais, Froges et Camargue (Péchiney) |
| 200 | Credit Commercial de France |
| 703 | Forces Motrices du Haut-Rhin |
| 50 | Manufacture des Glaces et Produits Chimiques de Saint Gobain, Chauny et Cirey |
| 10 | "La Nationale"—Compagnie Anonyme d'Assurances sur la Vie |
| 10 | "La Nationale" Compagnie d'Assurances contre l'Incendie et les Explosions |
| 5,000 | S. A. des Salpêtres et Produits Chimiques et Tartariques de Bordeaux |
| 150 | Société Générale des Cirages Français |
| 100 | Société Lyonnaise des Eaux et d'Eclairage |

# APPENDIX A

| Shares | |
|---|---|
| 10 | "L'Union"—Compagnie d'Assurances contre L'Incendie |
| 10 | "L'Union"—Compagnie d'Assurances sur la Vie Humaine |

GERMAN

| | |
|---|---|
| R.M. 32,500 | Darmstädter und Nationalbank |
| R.M. 48,000 | Deutsche Bank |
| G.M. 215,000 | Deutsche Reichsbahn Gesellschaft, 7% Guaranteed Preferred |
| R.M. 48,000 | Disconto Gesellschaft |
| R.M. 123,000 | Reichsbank |

HUNGARIAN

| | |
|---|---|
| 3,975 | Ungarische Escompte und Wechslerbank |

SWEDISH

| | |
|---|---|
| 570 | Grängesberg-Oxelösund Traffik A/B |
| 700 | Skandinaviska Kredit A/B |
| 750 | Swedish Match Company "B" (German shares) |
| 1,000 | Wifsta Varvs A/B |

## BANKSTOCKS CORPORATION
### of Maryland
### LIST OF HOLDINGS
### July 8, 1927

BANKS

| | |
|---|---|
| Farmers & Merchants National Bank, Maryland ........................$ | 1,210.00 |
| Boatmen's National Bank, St. Louis..... | 1,555.00 |

## BANKSTOCKS CORPORATION
*(Continued)*

BANKS (*Continued*)

| | |
|---|---|
| Manchester Bank, Maryland............ | $ 2,954.00 |
| First National Bank, Boston............ | 41,700.00 |
| National Metropolitan Bank, Washington | 4,040.00 |
| Cont. & Commercial National Bank Chicago ............................ | 12,631.50 |
| National Bank of Commerce, New York.. | 28,368.25 |
| National Bank of Italy, San Francisco... | 6,867.13 |
| Nat. Bank of Baltimore, Baltimore...... | 6,875.00 |
| Chatham-Phenix National Bank, New York | 8,880.00 |
| National City Bank, New York......... | 13,684.13 |
| National Shawmut Bank, Boston........ | 15,900.00 |
| Citizens National Bank, Baltimore....... | 21,071.75 |
| Chase National Bank, New York........ | 41,521.68 |
| | $207,258.44 |

TRUST COMPANIES

| | |
|---|---|
| Illinois Merc. Trust Co., Chicago........ | $ 14,706.68 |
| Union Trust Co., Baltimore............ | 232.00 |
| Mercantile Trust Co., St. Louis.......... | 4,180.00 |
| Century Trust Co., Baltimore.......... | 28,800.00 |
| Continental Trust Co., Baltimore........ | 2,385.00 |
| Mercantile Trust & Deposit, Baltimore... | 1,218.00 |
| Empire Trust Company, New York..... | 42,510.00 |
| Equitable Trust Company, Baltimore.... | 580.00 |
| Guaranty Trust Co., New York.......... | 11,929.75 |
| Union Trust Company, Chicago......... | 12,832.00 |
| Bankers Trust Company, New York..... | 28,796.82 |
| Safe Deposit & Trust Co., Baltimore..... | 15,608.39 |
| Equitable Trust Co., New York.......... | 39,939.60 |
| Marine Trust Co., Buffalo.............. | 7,468.63 |
| Bank of North America & Trust Co., Phila. | 23,698.50 |
| | $234,885.37 |

# APPENDIX A

## INSURANCE COMPANIES

| | |
|---|---|
| Niagara Insurance Co., New York | $ 14,500.00 |
| Great American Insurance Company, New York | 7,812.00 |
| Fidelity & Casualty Co., Baltimore | 12,600.00 |
| Carolina Ins. Company, New York | 25,000.00 |
| U. S. Fire Insurance Co., New York | 17,958.25 |
| Harmonia Insurance Company | 9,200.00 |
| Phœnix Insurance Company, Hartford | 15,652.00 |
| | $102,722.25 |
| Grand total | $544,866.06 |

## INSURANSHARES TRUST CERTIFICATES
## INSURANSHARES FUND H-27

STOCKS OWNED DECEMBER 31, 1927

| Company | Number of Shares held |
|---|---|
| Aetna Casualty & Surety Co | 247 |
| Aetna Fire Insurance Co | 10 |
| Agricultural Insurance Co | 498 |
| American Alliance Insurance Co | 50 |
| American Insurance Co | 1,000 |
| American Surety Co | 138 |
| Bond & Mortgage Guarantee Co | 228 |
| Boston Insurance Co | 10 |
| Buffalo Insurance Co | 10 |
| City of New York Insurance Co | 50 |
| Connecticut General Life Insurance Co | 236 |
| Continental Insurance Co | 1,860 |
| Detroit Fidelity & Surety Co | 728 |
| Fidelity & Casualty Co. of New York | 210 |

## INSURANSHARES TRUST CERTIFICATES
*(Continued)*

| Company | Number of Shares held |
|---|---|
| Fidelity & Deposit Co. of Maryland | 599 |
| Fidelity-Phenix Fire Insurance Co. | 338 |
| First National Bank of New York | 5 |
| Franklin Fire Insurance Co. | 19 |
| General Reinsurance Corporation | 100 |
| Glens Falls Insurance Co. | 20 |
| Great American Insurance Co. | 15 |
| Hanover Fire Insurance Co. | 5 |
| Hartford Fire Insurance Co. | 293 |
| Hartford Steam Boiler Inspection & Insurance Co. | 4 |
| Home Insurance Co. | 120 |
| Illinois Merchants Trust Co. | 72 |
| Industrial Trust Co. | 100 |
| Insurance Company of North America | 3,075 |
| Lawyers Mortgage Co. | 359 |
| Maryland Casualty Co. | 675 |
| Mercantile Trust Co. (St. Louis) | 200 |
| National Fire Insurance Co. | 160 |
| National Surety Co. | 950 |
| New Amsterdam Casualty Co. | 12 |
| New Hampshire Fire Insurance Co. | 35 |
| New Jersey Fidelity & Plate Glass Insurance Co. | 9 |
| New York Casualty Co. | 1,469 |
| Niagara Fire Insurance Co. | 25 |
| North River Insurance Co. | 70 |
| Northwestern National Insurance Co. | 472 |
| Old Colony Trust Co. | 132 |
| Phoenix Insurance Co. | 237 |
| Preferred Accident Insurance Co. | 450 |
| Providence-Washington Insurance Co. | 33 |

# APPENDIX A

| Company | Number of Shares held |
|---|---|
| St. Paul Fire & Marine Insurance Co........ | 200 |
| Security Insurance Co...................... | 142 |
| Springfield Fire & Marine Insurance Co.... | 10 |
| Sun Life Assurance Co. of Canada.......... | 3 |
| Travelers Insurance Co.................... | 210 |
| United States Casualty Co................. | 35 |
| United States Fidelity & Guaranty Co...... | 694 |
| United States Guarantee Co................ | 2 |

## UNITED STATES & FOREIGN SECURITIES CORPORATION

SECURITIES OWNED DECEMBER 31, 1927

| Shares | BANK STOCKS |
|---|---|
| 800 | Central Union Trust Company of New York |
| 163 | Chemical National Bank of New York |
| 300 | Colonial Trust Company, Philadelphia |
| 2,100 | Continental National Bank & Trust Company, Chicago |
| 480 | Corn Exchange Bank, New York |
| 1,000 | First National Bank of Chicago |
| 100 | First National Bank of the City of New York |
| 4,000 | Manufacturers & Traders-Peoples Trust Company, Buffalo |
| 400 | National Bank of Commerce in New York |
| 300 | National City Bank of New York |
| 5,925 | National Park Bank of New York |
| 1,000 | New York Title and Mortgage Company |

## UNITED STATES & FOREIGN SECURITIES CORPORATION (*Continued*)

| Shares | BANK STOCKS (*Continued*) |
|---|---|
| 125 | Old Colony Trust Company, Boston |
| 300 | Title Guarantee and Trust Company, New York |
| * 8,555¼ | Banque de Bruxelles |
| 3,500 | Banque de L'Union Parisienne |
| Ctfs. 2,000 | Disconto-Gesellschaft in Berlin (American Trust Ctfs. each of 400 Reichsmarks par value) |
| 2,474 | Pester Ungarische Commercial Bank, Budapest |
| R.M. 500,000 | Reichsbank, Germany |
| 200 | Société Générale de Belgique |
| 1,000 | Standard Bank of Canada |
| Ctfs. 2,500 | Wiener Bank-Verein (American Trust Ctfs. each of 400 Austrian Schillings par value) |
| | RAILROAD STOCKS |
| 5,000 | Atchison, Topeka and Santa Fe Railway Company, Common |
| 850 | Chesapeake Corporation |
| 2,000 | Chesapeake & Ohio Railway Company, Common |
| 5,000 | Consolidated Railroads of Cuba, 6% Cumulative Preferred |
| 1,000 | Great Northern Railway Company, Preferred Certificates of Deposit |
| 4,000 | Illinois Central Railroad Company, Common |
| 6,500 | New York Central Railroad Company |
| 1,500 | New York, Chicago and St. Louis Railroad Company, Common |
| 1,500 | Norfolk and Western Railway Company, Common |

| Shares | |
|---|---|
| 2,000 | Seaboard Air Line Railway Company, Preferred |
| 10,000 | Southern Pacific Company |
| 15,000 | Southern Railway Company, Common |
| 8,000 | Union Pacific Railroad Company, Common |
| | PUBLIC UTILITY STOCKS |
| 6,500 | American Gas and Electric Company, Common |
| 5,202 | American Power & Light Company, Common |
| 3,000 | American Telephone and Telegraph Company |
| 2,500 | Brooklyn Edison Company, Inc. |
| * 1,033⅓ | Compagnie d'Électricité de l'Ouest-Parisien (Ouest-Lumière) |
| 3,600 | Consolidated Gas Company of New York, Common |
| 1,000 | Detroit Edison Company |
| * 1,092⅓ | Energie Electrique du Littoral Méditerranéen |
| 2,250 | International Telephone & Telegraph Corporation |
| 5,000 | Mohawk Valley Company |
| 5,000 | National Power & Light Company, Common |
| 10,000 | North American Company, Common |
| * 286 | Société d'Electricité de Paris |
| * 410⅓ | Société Lyonnaise des Forces Motrices du Rhône |
| * 1,318⅔ | Société Parisienne pour l'Industrie des Chemins de Fer et des Tramways Electriques |
| * 1,213⅓ | Union d'Électricité |
| 2,500 | United Gas Improvement Company |

## UNITED STATES & FOREIGN SECURITIES CORPORATION (*Continued*)

| Shares | INDUSTRIAL STOCKS |
|---|---|
| 1,000 | Allied Chemical & Dye Corporation, Common |
| 30,000 | Amerada Corporation |
| 1,000 | American Radiator Company, Common |
| 3,000 | American Smelting & Refining Company, Common |
| 2,000 | American Tobacco Company, Common "B" |
| 1,000 | Broadway Department Store, Inc., Common |
| 1,000 | Central Aguirre Sugar Company |
| 5,000 | Chile Copper Company |
| * 2,143⅔ | Compagnie des Forges et Aciéries de la Marine et d'Homécourt |
| 3,000 | Consolidated Cigar Corporation, Common |
| 3,000 | Continental Can Company, Inc., Common |
| 2,000 | Coty, Inc. |
| 10,000 | Dodge Brothers, Inc., $7 Cumulative Preference |
| 42,936 | Dodge Brothers, Inc., Class "A" Common |
| 42,000 | Dodge Brothers, Inc., Class "B" Common |
| 1,000 | E. I. duPont de Nemours & Company, Common |
| 1,000 | Eastman Kodak Company of New Jersey, Common |
| 1,500 | Federal Bake Shops, Inc., Cum. Pfd. with stock purchase warrants |
| 2,250 | Federal Bake Shops, Inc., Common |

# APPENDIX A

| Shares | INDUSTRIAL STOCKS |
|---|---|
| 1,000 | Fisk Rubber Company, 7% Cumulative Convertible First Preferred |
| 2,000 | Fleischmann Company, Common |
| R.M.4,486,300 | Gelsenkirchener Bergwerks-Aktien-Gesellschaft |
| 4,000 | General Baking Corporation, Class "A" |
| 10,000 | General Electric Company, Common |
| 10,000 | Goodyear Tire & Rubber Company, Common |
| 4,000 | Great Western Sugar Company, Common |
| 3,000 | Gulf Oil Corporation of Pennsylvania |
| 2,000 | International Harvester Company, Common |
| 10,000 | Kennecott Copper Corporation |
| 12,500 | Loew's Incorporated, Common |
| 24,500 | Louisiana Land and Exploration Co., Common |
| 3,000 | May Department Stores Company, Common |
| 10,000 | National Cash Register Company, Common "A" |
| 4,000 | National Sugar Refining Co. of New Jersey |
| 1,000 | Otis Elevator Company, Common |
| R.M. 408,000 | "Phoenix" Aktiengesellschaft für Bergbau und Hüttenbetrieb |
| 1,000 | Postum Company, Incorporated |
| 5,000 | St. Joseph Lead Company |
| 2,000 | Sears, Roebuck & Co. |
| * 2,095 | Société des Hauts Fourneaux et Fonderies de Pont-à-Mousson |
| * 3,059⅔ | Société Métallurgique Sambre et Moselle |
| 5,000 | Texas Corporation |

UNITED STATES & FOREIGN SECURITIES CORPORATION (*Continued*)

| Shares | INDUSTRIAL STOCKS (*Continued*) |
|---|---|
| 1,000 | Timken Roller Bearing Company |
| 7,800 | Union Oil Company of California |
| 1,000 | United Drug Company, Common |
| 1,000 | United States Steel Corporation, Common |
| R.M. 372,000 | United Steel Works Corporation, Common |
| 4,000 | Westinghouse Air Brake Company |
| 4,000 | Woodworth, Inc., Convertible Preference |
| 4,000 | Woodworth, Inc., Common |

| | BONDS |
|---|---|
| $100,000 | Chicago, Milwaukee & Puget Sound Railway Company, First 4s, 1949 |
| 150,000 | Chicago, Milwaukee & St. Paul Railway Company, General & Refunding 4½s, 2014 |
| 100,000 | Consolidated Cigar Corporation, Ten-Year Convertible 6% Gold Notes due 1936 (called as of January 4, 1928) |
| 50,000 | French National Mail Steamship Lines External 7s, 1949 |
| 29,000 | Great Consolidated Electric Power Company, Limited, First Mortgage 7s, 1944 |
| 100,000 | Louisiana Land & Exploration Company, Three-Year First Mortgage 7s, 1930 |
| 200,000 | "Montecatini" Mining and Agricultural Company Incorporated 10-Year Debenture 7s, 1937, with Warrants |

# APPENDIX A

| | BONDS |
|---|---|
| $260,000 | Park-Lexington Corporation First Mortgage Leasehold 6½s, 1953 |
| 130,000 | Serbs, Croats & Slovenes 8s, 1962 |
| 100,000 | Toho Electric Power Company, Limited, 6% Notes, 1929 |
| Shares | OTHER SECURITIES |
| 1,000 | Belco Royalties, Inc. |
| 1,000 | Cobel Royalties, Inc. |
| 3,000 | Equitable Office Building Corporation, Common |
| 12,500 | German Credit & Investment Corporation, $6 Cumulative Second Preferred |
| 62,500 | German Credit & Investment Corporation, Common |
| 5,000 | German Credit & Investment Corporation, $7 Cumulative First Preferred Allotment Certificates |
| 1,000 | Schulte Real Estate Company, Inc., Common |
| | Warrants for Contingent additional interest appertaining to $50,000 Siemens & Halske 25-Year 6½% Debentures |
| 400 | Western New York Investors |

The above list has been verified by us.

* Securities marked (*) represent the equivalent of the corporation's interest as of December 31, 1927 in certain foreign joint accounts, based on the latest advices received; certain of such securities have been sold but the proceeds have not yet been received by the corporation.

PRICE, WATERHOUSE & CO.,

January 9, 1928. 56 Pine Street, New York

# APPENDIX B

## Specific Trust Conceptions

ACME SYNDICATE, LTD.

"A Corporation organized . . . for the purpose of taking advantage of special opportunities for profitable investment in the field of industrial and mercantile finance."

"Acme Syndicate, Ltd., will devote a very substantial portion of its resources to two types of opportunity for investment in the realm of infant industry: . . . First, the company which is already amply financed, but in which stock may be purchased due to some special condition, and second, the company which needs capital for expansion."

———o———

ALDRED INVESTMENT CORPORATION

Has powers to "acquire, hold, sell, underwrite and generally deal in government, municipal and corporation securities. The primary business of the corporation will be the investment and reinvestment of its resources in carefully selected obligations and shares, both domestic and foreign."

———o———

THE ALEXANDER FUND

"An unincorporated entity which invests moneys in its care in stocks and bonds, collects income and profits on the investments, and periodically distributes stated sums to the participants. Any undistributed surplus accumulates for benefit of the participants."

———o———

### ALLIANCE INVESTMENT CORPORATION

"Funds of the corporation are invested in approximately 200 separate issues of bonds and stocks of railroad, public utility and industrial companies and stocks of banks and insurance companies."

———o———

### ALLIED INTERNATIONAL INVESTING CORPORATION

The corporation "was formed for the purpose of extending to American capital the opportunity of participating in diversified investments throughout the world, including America, wherever and whenever the most advantageous conditions may present themselves. The Directors have declared that it is the policy of the corporation to carefully diversify investments both as to type and geographical location and not to acquire securities for the specific purpose of obtaining control of the management of corporations."

———o———

### ALLIED INVESTORS, INC.

"The assets of the trust are cash and marketable securities. The income consists of interest and dividends received . . . and profits realized from the sale of securities."

"The purpose of the trust is to provide for the investor the greater degree of security and more liberal returns which are made possible by painstaking analysis, skilled investment experience and alert supervision."

———o———

### AMERICAN BOND AND SHARE CORPORATION

"The company was incorporated to engage in business as an investment holding company. Under the general plan of operation it invests its funds in a

diversified list of securities, maintaining approximately a ratio of 60% in bonds, 25% in preferred stocks and 15% in dividend-paying common stocks."

"Its investments are diversified widely as to type, class, industry and geographical location."

---

AMERICAN, BRITISH AND CONTINENTAL CORPORATION

"The Corporation may, among other things, underwrite, acquire, hold and sell securities and obligations of all kinds, including stocks, mortgages, bonds, debentures and notes of governments, state, municipal and other governmental authorities, and of railways, public utilities, and commercial, financial and industrial institutions or other businesses in all parts of the world."

"The Corporation . . . benefits by the widespread financial and industrial connections of . . . banking institutions and is afforded opportunities for profitably employing its capital under expert supervision in the principal financial markets of the world."

---

AMERICAN FINANCIAL HOLDING CORPORATION

"It is the intention of the management as opportunity arises, to utilize a large part of the capital funds of the corporation for the acquisition of the securities of financial institutions engaged in the banking, insurance, surety and title mortgage business."

"The Corporation is also authorized to give investment counsel, invest in securities generally, deal in open market securities, participate in syndicate underwritings, organize and reorganize enterprises, and engage generally in financial undertakings."

---

AMERICAN FOUNDERS TRUST

" . . . has four principal functions as listed below, the first of which is not ordinarily considered as belonging to investment trusts:

1. Investing subtantially in the junior shares of investment trusts under its investment supervision.
2. Providing investment service to investment trusts of the general management type.
3. Investing and reinvesting in marketable securities.
4. Underwriting investment securities."

"American Founders Trust may be designated as a management organization which provides investment service to investment trusts."

———o———

AMERICAN, LONDON AND EMPIRE CORPORATION

"An Investment Trust of the British—or Management—type. The management will conform closely to the best Investment Trust practice as developed in Great Britain during the past thirty years."

"Bank stocks—primarily of New York and London—and American and British insurance stocks—will predominate in the investment portfolio."

———o———

AMERICAN AND SCOTTISH INVESTMENT COMPANY

The company is organized "to acquire, hold, sell and underwrite securities both in the United States and foreign countries, and in its operation is designed to afford investors an opportunity to participate in investments and in underwritings which might not be available to them as individuals."

———o———

# APPENDIX B

### ASTOR FINANCIAL CORPORATION

"The corporation is engaged in purchasing mortgage liens upon improved real property located in the city of New York and the immediate vicinity thereof and in purchasing, holding and selling the securities of banks, insurance companies, mortgage and title companies, railroads, and other public utilities of high grade industrial corporations."

———o———

### ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION

"Atlantic and Pacific International Corp. has been organized . . . to acquire, hold, sell and underwrite securities of any nature, both domestic and foreign, under certain regulations."

"The Corporation is designed to afford to investors an opportunity to participate in diversified investments and in underwritings which might not be available to them as individuals."

———o———

### BANKERS INVESTMENT TRUST OF AMERICA

"The Trust procures its capital from the sale of its own shares. These funds are invested by experienced trustees in seasoned and readily marketable dividend-paying securities subject to definite restrictions. Through the accumulation and reinvestment of reserves, the stability and income are increased. The capital structure and plan of operation . . . was designed to give the greatest security to its shareholders consistent with flexibility of operations."

———o———

### BANKSHARES CORPORATION OF THE UNITED STATES

"A holding and financial corporation, organized for the purpose of holding, underwriting, acquiring control, selling and generally dealing in Bank stocks and

securities of Trust companies, Insurance, Title and Mortgage companies and similar Banking and Financial Institutions."

—o—

BANKSTOCKS CORPORATION OF MARYLAND

The company "purchases the capital stock of the more prominent banks and trust companies of the United States and Canada. The company's investments are limited to 10% of its assets in any one security unless the company is acquiring control of an institution."

—o—

THE BOND INVESTMENT TRUST

"Formed . . . for the purpose of providing a safe investment for small amounts of money, with a wide diversification of security usually available only to the large buyer."

—o—

BRITISH TYPE INVESTORS, INC.

"The Directors have general management of the portfolio of investments with the resultant responsibility to invest and reinvest in accordance with sound investment principles and policies."

—o—

CENTURY SHARES TRUST

"The principal purpose of the Trust is to make available to investors shares of moderate price which will be readily marketable and which will represent an investment in a diversified list of Insurance company and Bank stocks ordinarily available only in high priced units."

"The Trustees have powers of investment and reinvestment in the shares of insurance companies, banks and trust companies of the United States and

Canada, and in such bonds and notes as they may from time to time select.''

———o———

COLONIAL INVESTORS SHARES

Series A

''A limited, discretionary Investment Trust.''

''As originally constituted, . . . consists of common stocks of forty-one leading American corporations, each of which is listed on the New York Stock Exchange; all dividends thereon and income therefrom . . . are paid or delivered directly to the Trustee for the benefit of the holders of Colonial Investors Shares, and are held or distributed by the Trustee.''

———o———

CONSOLIDATED STOCK AND DEBENTURE COMPANY, INC.

''. . . Directors make no attempt to forecast the temporary fluctuations of the security market. . . . Their sole consideration is to select those securities that are sound and have intrinsic value and to be reasonably sure that their dividends or interest will continue to be paid, and in the course of time, will appreciate in market value.''

———o———

CONTINENTAL SECURITIES CORPORATION

''A management investment trust—general type. Company purchases, holds and sells securities of all kinds and may issue its securities for their acquisition. Company may also participate in underwritings.''

———o———

DIVERSIFIED SECURITIES CORPORATION

''A management investment trust—general type. Invests and reinvests its resources in seasoned and marketable domestic and foreign securities and to a

limited extent to participate in underwriting of issues eligible for purchase under certain regulations adopted by its Directors."

———o———

DIVERSIFIED TRUSTEE SHARES

"Diversified Trustee Shares represent participating ownership in . . . seasoned and dividend paying railroads, public utilities, industrials and Standard Oils."

They "enable the small as well as the large investor . . . to become part owner of the nation's industries and to take advantage of the gains to be derived from common stocks."

———o———

EASTERN BANKERS CORPORATION

"Organized for the purpose of investing and reinvesting all its funds, with the exception of a small reserve, in the stocks of selected financial institutions. It is not a dealer in such stocks, nor does it make loans, accept deposits or engage in any other business operations."

———o———

ELECTRIC INVESTORS, INC.

"The main purpose for which the company was organized is to acquire and hold securities of public utility companies as diversified permanent investments. In addition, it has holdings in the securities of a number of other corporations. The revenue of the company is principally derived from dividends and interest received from securities owned. The company has also received income from underwritings and from profits realized from the sale of certain of its holdings."

———o———

# APPENDIX B

FEDERATED CAPITAL CORPORATION

"The investments are restricted to an approved list of securities and both the restrictions and the list are determined by the Board of Directors."

—o—

FEDERAL INVESTMENT TRUST INCORPORATED

"An American Investment Company formed and conducted on the principles of a British Investment Trust. It is authorized . . . to make investments in and to buy, sell, hold and underwrite government, municipal, corporation and other securities."

"Federal Investment Trust is designed to give to investors of moderate means, as well as to those of larger means, the advantages of participation in a diversified investment and in underwritings which might not be available to them as individual investors."

—o—

FINANCIAL INVESTING CO. OF NEW YORK, LTD.

"Its operations are those of companies called 'Investment Trusts,' which means that its working capital is at all times invested in sound securities issued by Governments, States, Municipalities, Railroads and all classes of transportation companies, Industrial companies, Public Utility companies, and in fact practically every type of industry."

—o—

FIRST FEDERAL FOREIGN INVESTMENT TRUST

"It was the belief of the organizers of this Trust that because of the obvious need of specialization in foreign investment field, the Trust, under proper supervision and regulation would render a distinct service to American investors by obtaining for them participation in the income and profits to be derived

through the purchase of a diversified list of foreign securities, both in dollar denominations and in stabilized foreign currencies."

"The Trust is distinctly a Management Trust and operates under the control of its Board of Directors."

———o———

THE FIRST INVESTMENT COMPANY OF CONCORD, N. H.

"A general investment Company."

"Not over 10% of capital may be invested in any one investment."

"Invests in standard securities."

———o———

FIXED TRUST SHARES

Fixed Trust Shares represent "a full participating, non-voting ownership in the common stocks of 30 leading American corporations. The . . . advantages of a properly set up common stock investment trust of the non-discretionary type are receiving . . . recognition because of security afforded through broad . . . diversification, satisfactory average return on the investment, and the participation in profits from that growth of industry incident to the growth of the United States as a whole."

———o———

GENERAL PUBLIC SERVICE CORPORATION

Organized for "the creation of an investment company—not a holding company—which would seek stability, safety and profit through diversified holdings of securities of successful, progressive and well managed companies."

———o———

GENERAL TRUSTEES CORPORATION

"General Trustees Corporation is a Super-Investment Trust. Through its holdings in other Invest-

ment Trusts whose portfolios contain a cross section of the world's best securities, selected by Investment Trust experts, General Trustees secures for its shareholders the maximum of diversification and the services of the best financial brains of this country."

---o---

GREENWAY CORPORATION

"Operates as a management investment trust—general type. Invests its funds principally in bank, trust company and insurance company stocks."

---o---

THE GUARDIAN INVESTMENT TRUST

The Trust "constitutes a general management Trust of the British type, investing and re-investing its funds in a widely diversified field of domestic and international securities."

---o---

GUARDIAN INVESTORS CORPORATION

The corporation "may acquire, hold and sell securities and obligations of a diversified nature, both domestic and foreign, and participate in the underwriting of securities. The primary purpose of the corporation is to provide investment safety based upon broad diversification of security holdings and safeguarded by constant watchfulness."

"Critical supervision is given to the study of conditions affecting securities and continual examinations; appraisals and recommendations are made by competent economists and statisticians."

---o---

INCORPORATED INVESTORS

It was the purpose of the organizers "to create an organization equipped to invest in common stocks

with more profit and less risk than is the lot of the individual investor."

"In choosing the portfolio of the trust the management relies on the assumption that, if you enter into partnership with the leading companies in this country, the long term trend is decidedly in your favor and growth in values will only be temporarily interrupted by occasional recessions in general business."

—o—

INSURANSHARES TRUST CERTIFICATES

"Represent a pro rata ownership of stocks of . . . Companies deposited with the Trustee and of other securities which may be deposited from time to time."

"The stocks underlying these Trust Certificates represent most careful selection and scientific diversification and are picked by men of unquestioned ability whose years of successful experience in the insurance and insurance stock field makes their judgment respecting insurance company values especially sound and reliable."

—o—

THE INTERCONTINENTAL INVESTMENT CORPORATION

"The business of the corporation is the investment and reinvestment of its resources in tested securities."

—o—

INTERNATIONAL SECURITIES CORPORATION OF AMERICA

"The business of International Securities Corporation of America is confined strictly to the investment and reinvestment of its capital, surplus and reserves, in diversified, seasoned and marketable securities, both domestic and foreign."

"The income . . . is derived from the interest, divi-

dends and realized profits from its own investment portfolio."

—o—

THE INVESTING CORPORATION OF AMERICA
INVESTMENT TRUST CERTIFICATES

"The collateral unit behind investment trust certificates is 200 shares of 75 leading American Corporations—railroad, public utility and industrial—all of them listed on the New York Stock Exchange. The deposited securities will be under constant supervision by skilled management. They may be sold to realize gains or to avoid loss, and the securities substituted must meet the strict requirements of the declaration of trust."

—o—

THE INVESTMENT COMPANY OF AMERICA

"A general investment trust."

Investments of company are limited to specified restrictions.

—o—

INVESTMENT CORPORATION OF NORTH AMERICA

The corporation "is engaged in the creation of Investment Trust shares, representing a full participating, non-voting ownership in a Stock unit."

"The corporation will keep in touch with industrial movements and general economic conditions which may affect the current earnings or future position of the stocks included in the Units in order that it may be in a position to judge when substitutions should be made."

—o—

INVESTMENT TRUST OF NEW YORK, INC. TRUSTEE SHARES

"The security underlying collateral trustee shares consists of . . . shares of stocks in 75 corporations,

all of which are listed on the New York Stock Exchange."

—o—

INVESTORS EQUITY COMPANY

"Formed for the purpose of acquiring, holding, selling and underwriting securities of a diversified nature, both domestic and foreign. The company offers the investor an opportunity to obtain diversification in investment as well as participation in profitable underwritings of securities unavailable to him as an individual."

—o—

INVESTORS TRUSTEE SHARES, SERIES A

"The outstanding purpose and advantage to the holders of Investors Trustee Shares, Series A, is to obtain the maximum of security with opportunities for appreciation in principal and dividends through employment of the necessary ample capital in a broad investment in 55 of America's leading and progressive corporations, which is usually unattainable to the individual."

—o—

JACKSON & CURTIS INVESTMENT ASSOCIATES

"The Jackson & Curtis Investment Associates is a . . . trust issuing certificates of beneficial interest as its only capital stock. It has no bonds. The number of shares is unlimited and are ordinarily on sale at a fraction above the liquidating value of the trust plus the commission of Jackson & Curtis which is limited to two per cent. The trustees have broad powers in managing the affairs of the trust except that they are limited to ten per cent of the paid in capital or liquidating value, whichever is the larger, in making any investment except loans with 120%

collateral, bank deposits, or bonds, or notes, which are legal for Massachusetts savings banks."

———o———

JOINT INVESTORS, INC.

"Joint Investors, Inc. was organized to obtain for the investor in its shares greater safety and a higher return than is ordinarily available to him as an individual, through investment and re-investment of its resources in a broad list of sound and marketable securities. Its revenue is derived principally from interest and dividends received from investments in bonds and stocks and from profits arising through their resale."

———o———

MASSACHUSETTS INVESTORS TRUST

"A voluntary trust association purchasing and holding a wide variety of securities."

"Investments include shares of railroads, industrials, banks, insurance companies and public utilities."

———o———

MUTUAL INVESTMENT TRUST

". . . of the general, or discretionary, type."

"Its capital is flexible. Within proper limitations, funds can be invested wherever they will bring the best returns. Likewise, its investments can be moved about in accordance with changing economic and market conditions."

———o———

OIL SHARES INCORPORATED

"The business of Oil Shares Incorporated is confined solely to the investment and re-investment of its capital resources in the securities of corporations related to the oil industry."

"The company's assets will consist entirely of se-

curities and cash. Its revenues will be derived from interest and dividends on its investment holdings, together with profits accruing from investment turnover."

———o———

OLD COLONY INVESTMENT TRUST

"Old Colony Investment Trust was organized . . . primarily for the purpose of investing in a diversified list of securities, and of issuing its own obligations to obtain funds for such investment."

"The Declaration of Trust . . . provides for five Trustees, who receive no compensation from the Trust."

"The Trust property is controlled and managed by the Trustees in their absolute discretion."

———o———

PACIFIC INVESTING CORPORATION

"Operates as a management investment trust—general type."

———o———

PENNSYLVANIA BANKSHARES AND SECURITIES CORPORATION

"Organized to invest in securities of institutions engaged in the banking, insurance and surety business and to buy, sell, underwrite and deal in such securities and in other securities, both corporate and governmental."

———o———

POWER AND LIGHT SECURITIES TRUST

"Power and Light Securities Trust . . . is an investment trust of the general management type. It operates along the lines generally followed for many years by the successful British and Scottish trusts,

enabling the investor, through shares in a single company, to secure stability, safety and profit through broad diversification. It is the policy of the Trust to invest primarily in seasoned securities of leading Power and Light and other essential public service corporations."

———o———

RAILWAY AND LIGHT SECURITIES COMPANY

"Organized . . . for the purpose of holding for income and/or for sale the securities of railroads and public utility enterprises."

———o———

SECOND FINANCIAL INVESTING CORPORATION

"The assets of the Corporation shall consist of Bonds, Preferred and Common stock investments listed upon regularly established and recognized stock exchanges equal in amount to the par value of its own Bonds and Capital stock, although the paid and earned surplus may be invested in listed or unlisted securities."

"The certificate of incorporation permits the investment and re-investment of its resources under careful restrictions and provides for wide diversification."

———o———

SECOND INTERNATIONAL SECURITIES CORPORATION

"Its purpose is to afford its stockholders sound investment through broad international diversification and constant supervision; to invest and reinvest its resources in marketable domestic and foreign securities; and to a limited extent to underwrite issues which are eligible for purchase under regulations adopted by the Board of Directors."

———o———

SHAWMUT BANK INVESTMENT TRUST

"Company invests in domestic and foreign securities and participates in underwriting. The trust is controlled and managed by five trustees appointed by the executive committee of The National Shawmut Bank of Boston, the Trustees having complete charge of the investment of funds and the general management of the trust."

—o—

STANDARD INVESTING CORPORATION

"Conducts a management investment trust of a general type, dealing in corporate, municipal and government securities."

—o—

STATE STREET INVESTMENT CORPORATION

"For two years the company was run as a strictly private affair. . . . During the past year (1927) the shares were available for purchase by the public."

"The officers believe that over a period of years a carefully selected list of common stocks forms the best medium of investment from the point of view of security of principal, income return and capital appreciation. More particularly, they believe that such a selection will return an average of 10% and that this return must be obtained in order to justify the existence of the Corporation."

—o—

STERLING SECURITIES CORPORATION

A general management investment trust.

"Its purpose is to invest and reinvest funds raised by the sale of its own issues in such securities and properties as may be approved and recommended by the Investment Committee."

# APPENDIX B

"The Corporation will buy securities in the financial markets both of the United States and foreign countries.

"The Investment Committee . . . may make such changes in the portfolio of investments as they deem wise for its protection and improvement."

———o———

SWEDISH-AMERICAN INVESTMENT CORPORATION

"To own stocks and other securities, including holdings in banks, real estate companies and industrial companies in Sweden and other countries, and government and municipal securities. The enterprise is in the nature of an investment trust with discretionary powers given to the management."

———o———

UNITED BOND AND SHARE CORPORATION

"The primary purpose of the United Bond and Share Corporation is the establishment of an investment channel not subject to complicated inheritance tax problems, and affording safety of principal and income based upon a broad diversity and safeguarded by constant watchfulness and by change of securities as investment conditions warrant."

"The business of the United Bond and Share Corporation is confined mainly to the investment and re-investment of its resources in marketable securities."

———o———

UNITED INVESTMENT ASSURANCE TRUST

"Operates as a management investment trust of the general type with powers to underwrite security issues."

———o———

UNITED STATES AND BRITISH INTERNATIONAL COMPANY, LTD.

"Organized . . . to conduct the business of an investment trust of the general management type."

"The business of the company is the investment and reinvestment of its resources in domestic and foreign securities conforming to its clearly defined investment standards and, to a certain extent, participation in the underwriting of eligible securities. The policy of the company requires that its funds be employed in the main in seasoned investments which are readily marketable and among the leaders in their class."

---o---

UNITED STATES ELECTRIC LIGHT AND POWER SHARES, INC.

Trust Certificates, Series A

"It is strictly a holding company, neither the Company nor the Trustee having connection with the management, financing or operation of any of the companies, the securities of which are included therein. United States Electric Light and Power Shares, Inc., Trust Certificates, Series A, are secured by deposit with the Trustee of preferred or common stocks of electric light and power companies."

---o---

WISCONSIN INVESTMENT COMPANY

"A management investment trust—general type."

# APPENDIX C

## Table of Earnings